

No. 11116

In the United States

Circuit Court of Appeals

For the Ninth Circuit

GEORGE M. McBRIDE, Trustee in Bankruptcy
of Western Bond and Mortgage Company, an
Oregon Corporation, Bankrupt,

Appellant,

vs.

C. H. FARRINGTON,

Appellee.

APPENDIX OF EXHIBITS

Upon Appeal from the District Court of the United
States for the District of Oregon.

J. BISCHOFF,

Spalding Building,
Portland, Oregon,

Attorney for Appellee.

FILED

APR 22 1948

PAUL P. O'BRIEN,
CLERK

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Appellant,

vs.

C. H. FARRINGTON,

Appellee.

APPENDIX OF EXHIBITS

Upon Appeal from the District Court of the United
States for the District of Oregon.

PLAINTIFF'S EXHIBIT NO. 59

FIRST REVENUE AGENT'S REPORT

File No. 4277-0.

Examining Officer:
L. C. GUNNING

Time spent on examination: 23 Da

Portland, Oregon

In re: WESTERN BOND & MORTGAGE COMPANY
October 12, 1932.

70 Broadway
Portland, Oregon.

Present Name & Address:
WESTERN BOND & MORTGAGE
COMPANY

Internal Revenue Agent in Charge
Seattle, Washington.

302 Guarantee Trust Building,
Portland, Oregon.

An examination of the books and records of the above-named affiliated group for the calendar year 1930, disclosed the following in connection with its income tax liability:

SUMMARY

Years	Additional Tax	Penalties	Filing District
1929	Net loss verified	5% Negligence	OREGON
1930	\$46,838.56	\$2,341.93	

Net Additional Tax: \$46,838.56—Penalty \$2,341.93.

Nature of business: Financial, Real Estate, Etc.

Authority for examination: Original return 1930.

Comparison has been made with same.

Waivers: None. Claims: None.

Correspondence from the Bureau: None.

Authority for departing from manual: Complied.

Class 4 Report.

Basis for Consolidation:

The parent company owned all of the outstanding stock of the following companies:

Inclosures: Original Return 1930

Company	Liquidated 1930
Western Bond & Mortgage Guarantee Co.	
Broadway Oak Corporation	" "
Livestock Investment Co.	" "
Keystone Finance Co.	" "
Livestock Loan Co.	" "
Russell Land & Livestock Co.	" "
Central Realty Co.	" "
Western Insurance Agency, Inc.	" "
Beacon Investment Co.	" "

Form No. 1122 were filed for each of the above corporations. Form 851 revised was properly executed with the exception it does not show the dates upon which the above companies were liquidated.

Investigation revealed that this company also owned the stock of the Consolidated Finance Company of Washington and the Northwestern Finance Company for part of the year 1930. These stocks of these two companies were acquired in the later part of January 1930 and were sold in the early part of February 1930. Since these stocks were held less than thirty-one days, and since the above companies were not included in the original consolidated return filed it is presumed that the taxpayer exercised the option granted to it by Article 13 (f) Regulations 75 and excluded the operations of these companies for the period owned from its consolidated income.

In the liquidation of the above companies during 1930 the parent company incurred both profits and losses which it included in its income and deductions on the return. The gains and losses on liquidations have been eliminated from the consolidated income in accordance with Article 37 (a) Regulations 75.

Other Information:

Taxpayers return sets forth losses on the sales of the stock of several different companies. See Schedule F of the original return.

Investigation showed these losses to be incurred in transactions between itself and the Consolidated Credit Corporation, a corporation which was under the control of C. H. Farrington, who was also the principal stockholder of the Western Bond & Mortgage Co. These transactions were reflected on taxpayers books and upon the books of the Consolidated Credit Corporation by a series of complicated book entries, and it was necessary to spend several days in analyzing the entries on the books of both companies to determine just what took place.

The books of the Western Bond & Mortgage Company show that in 1929 it was instrumental in forming a company known as the General Loan Company.

The purpose of this company was to engage in the small loan business. The original capital was \$15,000.00 which was subscribed for by the Western Bond & Mortgage Company. The name of this company was later changed to the Consolidated Lenders of Oregon and from that to the Consolidated Credit Company.

In 1929 another company was formed. This company was known as the Consolidated Credit Corporation. The purpose of this company was to be a holding company, the object of which was to gain control of a number of companies already engaged in the small loan business.

The stock of the Consolidated Credit Corporation was divided into three classes namely:

Preferred Stock \$10.00 par value.

Common Stock Class "A" No par value.

Common Stock Class "B" No par value.

The Class "B" Common was the voting stock and was all subscribed by C. H. Farrington, Bennett Baldy and R. E. Vester. Farrington held the majority of the stock and the control of the corporation.

The Western Bond & Mortgage Company subscribed for \$300,000.00 worth of the Class "A" Common and gave in payment therefor \$300,000.00 in notes receivable of several livestock companies. It appears from the circumstances that these notes were of little or no value at the time, the Consolidated Credit Corporation never received any payment on any of these notes from the makers but by a series of transfers and substitutions rid itself of them at the expense of the Western Bond & Mortgage Company.

The Consolidated Credit Corporation purchased the 150 shares of outstanding stock of the Consolidated Credit Company from the Western Bond & Mortgage Company, at a purported price of \$75,000.00. This transaction was reflected on its books by the following entry.

Dr. Corporation Stocks

owned\$75,000.00

Cr. Cash (Western Bond &
Mortgage Co.)

\$28,500.00

Livestock Loans	46,500.00
J. S. Hill.....\$	3,500.00
Grand Ronde L. S. Co.	43,000.00

To record purchase of 150 shares of the capital stock of Consolidated Credit Company.

The books of the Western Bond & Mortgage Company reflect the cash part of the above transaction and show a profit on this sale of \$13,500.00. The livestock notes were never restored to the accounts of the Western Bond & Mortgage Company.

The 1929 operation loss carried forward by the taxpayer has been reduced by the additional profit on the above deal.

In January of 1930 the Western Bond & Mortgage Company acquired the capital stock of the Consolidated Finance Co., of Washington and the capital stock of the Northwestern Finance Co. In February 1930 it sold these stocks to the Consolidated Credit Corporation for \$100,000.00. This sale showed a profit of \$70,000.00. Taxpayer did not include this profit in its taxable income but credited it to a suspense account on its books. The suspense account was not closed at the end of 1930. This profit has been added to taxable income in this report.

In October 1930 it was made to appear through a series of book entries that the Western Bond & Mortgage Company purchased from the Consolidated Credit Corporation the following assets:

87 Shares Preferred & 2500 Shares of Common stock of Consolidated Credit Company	\$320,000.00
250 Shares Common Stock Northwestern Finance Co.	50,000.00
250 Shares Common Stock Consolidated Finance Co. of Washington.....	60,000.00
500 Shares Common Stock Surety Fi- nance Co. of Vancouver.....	45,000.00
1843-2/3 Shares of Class "A" Common Stock of Consolidated Credit Cor- poration	35,429.65

Live Stock Notes Receivable.....	134,851.21
Accrued Interest on above.....	3,197.97

Then the Western Bond & Mortgage Company was supposed to have liquidated the Consolidated Credit Company, the Northwestern Finance Company, the Consolidated Finance Company of Washington and the Surety Finance Company of Vancouver, and to have sold back the assets of the Northwestern Finance Company and the Surety Finance Company of Vancouver to the Consolidated Credit Corporation. The net sales price at which the assets of these companies were transferred to the Consolidated Credit Corporation were:

Northwestern Finance Company.....	\$ 7,000.00
Surety Finance of Vancouver.....	44,324.22

Losses on the above transactions were claimed on the return.

When the Western Bond & Mortgage Company took over the 87 shares of Preferred and the 2,500 shares of common stock of The Consolidated Credit Company it already owned 413 shares of the preferred stock. This transfer gave it possession of all of the outstanding capital stock of the Consolidated Credit Company.

Prior to transferring this stock to the Western Bond & Mortgage Company the Consolidated Credit Corporation had taken over all of the assets and assumed all of the liabilities of the Consolidated Credit Company except a note receivable to the Western Bond & Mortgage Company amounting to \$300,000.00. When the Western Bond & Mortgage Company had all the stock of the Consolidated Credit Company the only asset remaining was its own note. Its books showed an investment in the stock of the Consolidated Credit Company of \$361,300.00 and the only asset it received was its own note for \$300,000.00. A loss of \$61,300.00 was claimed on this liquidation.

At the same time it appears on the books of the Western Bond & Mortgage Company that it purchased \$250,000.00 worth of the common stock and \$50,000.00 of the Preferred Stock of the Baldy Finance Company

and \$40,500.00 of the common stock of the Baldy Finance Agency. The assets of the Consolidated Finance Company of Washington, which the Western Bond & Mortgage Company had taken over in the supposed liquidation of the stock which had cost it \$60,000.00 were then transferred to the Baldy Finance Agency in payment for the \$40,500.00 worth of capital stock and a loss was claimed for the difference. The stock of the Baldy Finance Agency was then transferred to the Consolidated Credit Company for \$35,000.00 and a further loss was claimed on the transaction.

The \$250,000.00 worth of common stock of the Baldy Finance Company was then transferred to the Consolidated Credit Corporation for a purported price of \$562,500.00 or a profit of \$312,500.00.

After analyzing all of the above transactions it appears that the net result was a gain to the Western Bond & Mortgage Company, which gain has been returned as taxable income.

The Live-Stock Notes Receivable transferred in the above deals were the balances remaining on the \$300,000.00 worth of notes which had been transferred in 1929 by the Western Bond & Mortgage Company in payment of its stock subscription of 100,000 shares of Class "A" Common Stock of The Consolidated Credit Corporation. As explained above none of these notes were realized on by the Consolidated Credit Corporation and by a series of exchanges and substitutions were all transferred back to the Western Bond & Mortgage Company, the amounts transferred in the above deal being the final clean up. The Western Bond & Mortgage Company charged these balances off as worthless in 1930. The charge off has been disallowed for lack of proof that these notes actually became worthless in the year 1930.

During 1930 the Western Bond & Mortgage Company carried on a conversion campaign whereby it induced some of the holders of its installment bonds to convert these obligations into units of stock of the Consolidated Credit Corporation. The agreement between it and the bond-holders was that the bond-

holders would subscribe for sufficient units of stock of the Consolidated Credit Corporation at \$15.00 per unit to equal the maturity value of the bond, the bondholders would be given credit on their subscription for the full amount they had paid on the bond, and would be allowed to complete the payments upon the same basis on which they were paying out their bond. When payment was complete the stock was to be delivered but in the interim the Western Bond & Mortgage Company was to keep in trust sufficient units to equal the amounts which had been credited upon the subscriptions. The Western Bond and Mortgage Company had an agreement with the Consolidated Credit Corporation to purchase the units of stock at \$13.00 per unit, less 15% discount to be allowed for selling the stock. A unit of stock consisted of one share of preferred par value \$10.00 and one share of Class "A" Common with no par value which was sold to the Western Bond at \$3.00 per share and which was resold by it for \$5.00 per share. Both classes of stock carried the discount or commission for sale.

The amount of stock disposed of by the Western Bond & Mortgage Company under this conversion program amounted to \$1,531,520.70 and the collections and credits during 1930 amounted to \$578,375.55.

The Western Bond and Mortgage Company set up a profit on these conversions computed at \$3.95 per unit. It charged against this profit the commissions paid to salesmen, other expenses incurred in the conversion, and a reserve of \$84,585.85 for possible losses of profits on contracts which would not be completed. Experience showed that many of these contracts would not be completed and the policy has been where contracts were not completed to deliver units equal to the amount paid in and to cancel the balance due. Since it appears to be questionable as to whether many of these sales were actually completed transactions in 1930, and since the reserve for losses was transferred to another corporation in a deal described below, it would seem inadvisable to include this re-

serve in taxable income.

In 1930 the Western Bond and Mortgage Company was instrumental in forming a corporation known as the Western Guarantee Company. This company had an authorized capital stock of \$5,000.00.

The Western Bond & Mortgage Company transferred the following assets and liabilities to the Western Guarantee Company in exchange for the entire capital stock of the latter company.

Assets:

Accounts receivable for

stock sold \$1,531,520.70

Less: Payments and credits 578,375.55

Net	\$953,145.15
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Corporation Stocks Trusteed	
on stock sales	603,487.50

Corporation Stocks Pledged	
on Notes Payable	187,220.00

Corporation Stock Unpledged	40,008.50
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Total Assets	\$1,783,861.15
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Liabilities:

Stock purchase liability	\$1,285,870.58
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Note payable	161,478.00
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Accrued Interest payable	24,698.22
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Reserve for possible losses	84,585.85
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Total Liabilities	\$1,556,632.65
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Difference	\$ 227,228.50
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It will be noted that only accounts which had to do with the bond conversions were involved in the above transfer.

Since the above transfer comes with the provisions of Section 112 (b)-4 1928 Act no taxable income accrued on the above transfers.

At the time the Western Guarantee Company was formed practically all of the common stock of the Western Bond and Mortgage Company was owned either by C. H. Farrington or the Laurel Investment Company, a corporation controlled by Farrington.

Simultaneous with the formation of the Western Guarantee Company, Farrington made an exchange of all the common stock in the Western Bond & Mortgage Company owned by him and by the Laurel Investment Company with outside parties for certain securities. The understanding apparently being that, as soon as, the new stockholders came into control of the Western Bond & Mortgage Company they would cause that company to take the proper corporate action to trade the stock of the Western Guarantee Company to The Laurel Investment Company for the same securities previously traded to Farrington and Laurel Investment Company for the common stock of the Western Bond & Mortgage Company. The result of these trades was that the Laurel Investment Company was in possession of the stock of The Western Guarantee Company and the Western Bond and Mortgage Company had the securities previously traded to Farrington et al. for the common stock of the Western Bond and Mortgage Company.

The Western Bond and Mortgage Company took up the assets in trade at the face value and reported a profit on this deal of \$16,460.23. It appears that nothing would be gained by attacking the value used and this profit has been accepted as correct. The tax liability accruing to the Laurel Investment Company on this deal is being covered in a separate report on that company.

Some of the companies included in the consolidated return are merely shell companies the operations, if any, are merged with the transactions of the Parent Company and are included in its Profit and Loss. No separate schedules are shown for these companies.

Negligence Penalty:

Investigation showed the return to have been prepared in a careless and negligent manner without due regard to existing law and regulations and it is recommended that the five percent negligence penalty be asserted.

(Signed) L. C. GUNNING,
Internal Revenue Agent.

PLAINTIFF'S EXHIBIT NO. 60
AMENDED REVENUE AGENT'S REPORT

COPY
TREASURY DEPARTMENT

office of
Commissioner of Washington
Internal Revenue

May 7, 1943

refer to:
IT:R:E:Aj
JWH-9647

Collector of Internal Revenue,
Portland, Oregon
Attention: Bankruptcy Division.
In re: Western Bond and Mortgage Co.,
Portland, Oregon.

In accordance with your request of April 26, 1943, there is enclosed herewith a copy of the "revised" report of the internal revenue agent, dated January 13, 1933, which formed the basis for the assessment, against the above-named corporation, of a 1930 deficiency in income tax of \$40,772.61 and negligence penalty of \$2,038.63.

Should you require, in addition to the instant enclosure, a copy of the agent's "original" report, it is suggested that you obtain same from the internal revenue agent in charge, at Seattle, Washington, in order to obviate further delay, this office having experienced some difficulty in locating the file due to the present status of the case.

Timothy C. Mooney,
Deputy Commissioner,
By (signed) J. W. CARTER
Head of Division.

Enclosure:

Copy of "revised" agent's report.

11
COPY

REVISED REPORT

In re: Western Bond & Mortgage Co.
Preliminary Statement

<i>Summary</i>		
Year	Additional Tax	5% negligence penalty
1930	\$40,772.61	\$2,038.63

Net additional tax \$40,772.61 penalty \$2,038.63

As a result of protest filed and conference held in this office, a re-examination of the records in connection with the contentions set forth in the protest disclosed the following:

Gain on sale of stock in Consolidated Credit Company

The 1929 operating loss carried forward as a deduction on the original 1930 return was reduced by an additional profit on the sale of this stock of \$46,500.00. Taxpayer contends that this additional profit was taken up during 1929 and that the adjustment was in error. Examination of all of the book entries made in connection with this transaction indicates that all of the profit on this deal was taken up in 1929 by a series of book entries made at different times during 1929. The taxpayer's contention in connection with this item should be conceded and the 1929 operating loss to be carried forward to 1930 should be increased by the \$46,500.00 by which it was required in the original report.

Gain on sales of stock in Consolidated Finance Co.
of Washington and Northwestern Finance Company

An analysis of the suspense account in which the profits on the sales of these stocks was credited failed to disclose that these profits were closed into income during 1930 as contended by the taxpayer. No disclosure has been made of the detailed information by which it is contended it could be shown that this profit had found its way into 1930 income and it is recommended that no change be made in this adjustment.

Bad Debts

The greater portion of the bad debt deduction disallowed was composed of a series of live stock loans of various ages which had been transferred to the Consolidated Credit Corporation in 1929 as part payment for a subscription of the capital stock of that company, and which had been re-transferred by that company to the taxpayer in exchange for other assets in 1930. Apparently, the Consolidated Credit Corporation never expected to, and in fact never did, collect on these notes, but merely used them as a medium of exchange until some other asset could be substituted. Nothing could be learned from the present officers or employees as to the dates of the loans, the nature thereof, the collateral security, or the steps taken to enforce collection. Due to lack of information, this deduction was disallowed. No further information is available at this time and it is recommended that no adjustment be made in this item.

Income from installment bonds

No change was made in the original report on account of this item. The amount which the taxpayer included in income but which it now contends was included in error amounted to \$176,686.58 and was made up of two items under the captions of

Installment Bond Default Income	\$104,790.73
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Profit on bond conversions	71,895.85
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Analysis of the transactions in connection with the conversion of the installment bonds disclosed that all of the above profit was derived from the conversion of the bonds and not from bonds in default as indicated by the taxpayer's protest.

During 1930, the Western Bond and Mortgage Company carried on an intensive campaign whereby it persuaded part of the owners of its installment bond obligations to convert these bonds into stock of the Consolidated Credit Corporation. The basis upon which this conversion was to be made was the allowance of the total amount paid in by the bondholder, plus interest, against the purchase of units of stock in the Consolidated Credit Corporation at \$15.00 per unit. A unit of stock consisted of one share of

preferred stock and one share of Class "A" Common stock. The Consolidated Credit Corporation was a separate company, but the taxpayer had an agreement with it for the purchase of these units of stock at \$13.00 per unit, the Western Bond & Mortgage Company to be allowed in addition 15% sales commission or \$1.95 per unit. Thus it can be seen that upon each unit disposed of, taxpayer realized a gain of \$2.00 plus commission of \$1.95 or \$3.95 per unit.

Part of the gain on these conversions was credited to profit on bond conversions account and the balance was credited to default income account. The \$104,790.73 closed into income from the Default Income Account was not in fact default income credited to this account in the regular course of business, but was profit realized on the sale of units of Consolidated Credit Corporation stock which had been erroneously credited to the default income account.

None of the so-called default income credited to this account in the regular course of business was transferred to Profit and Loss during 1930. A summary of the detailed accounts which go to make up the Installment Bond Liability Account as shown by the balance sheet is as follows:

Installment Bond A/cs	12/31/1929	12/31/1930
Cash surrender value	\$1,159,393.89	\$ 717,811.21
Contingent Liability	206,720.50	102,644.96
Contingent Surplus	361,772.72	174,608.42
Default Income	164,806.09	189,966.47
Interest Earnings	245,134.84	306,704.25
Misc. Conversion A/cs		8,127.94

Total per B/S	\$2,137,828.04	\$1,499,863.25
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It may be seen from the above that even though the Cash Surrender Value and other Installment Bond Liability Accounts were substantially decreased; due to the conversions made in 1930, the Default Income and Interest Earnings Accounts were substantially increased.

There was a large number of bond conversions in 1930 and due to the confused state of the records, no

attempt was made to check each transaction.

The taxpayer has no proper ground for complaint against including the profit on these conversions in income and especially so when no change is made in its own computation and it is recommended that no change be made in this item.

Depreciation

The taxpayer makes certain claims for depreciation not taken on its original return as follows:

Western Bond & Mortgage Company

A claim is made for the allowance of depreciation on furniture and fixtures for both the years 1929 and 1930 in amount of \$1,831.06 per year. This depreciation is based on an average asset value of \$41,907.58 and a life of 10 years. Apparently, consideration has been given to assets, the cost of which has been previously recovered through depreciation charges. Reports for previous years disclose no information on depreciation. The books indicate a fixture and furniture account as follows:

12/31/1929	\$35,361.92
12/31/1930	35,603.87

The amount claimed of \$1,831.06 appears to be reasonable and to take into consideration, exhaustion and this amount is recommended for allowance for the years 1929 and 1930.

Western Insurance Agency

A claim is made for allowance of depreciation on Furniture & Fixtures for both these years, 1929 and 1930, in the amount of \$345.66. This deduction is based on an average asset value of \$3,456.63 and an average life of ten years. The furniture and fixture account per books shows the following:

12/31/1929	\$1,937.46
12/31/1930	1,937.46

Average	1,937.46
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A ten percent rate on the above average cost equals \$193.75 per year and this amount is recommended for allowance for both the years 1929 and 1930.

Broadway Oak Corporation

A claim is made for the allowance of depreciation on furniture and fixtures and on building for both the years 1929 and 1930 in the amount of \$3,465.41 per year.

No books and records could be located for this company, but inquiry into its affairs indicate that it disposed of these assets in the year 1929 to the Guarantee Trust Company of Portland, Oregon, and thereafter it was inactive.

The claim for depreciation for the year 1930 is in error as the taxpayer did not own the assets upon which it claims depreciation. Any allowance made for the year 1929 would merely increase or decrease the gain or loss on the disposition of the building and fixtures and would not alter the final result. It is recommended that no depreciation be allowed the Broadway Oak Corporation for either the year 1929 or 1930.

The revised figures which follow give effect to these recommendations.

DEFENDANTS' EXHIBIT 62

IN THE DISTRICT COURT OF THE UNITED
STATES, FOR THE DISTRICT OF OREGON.

JOHN BROCKIE,)	
)	
Plaintiff,)	
	)	E - 9189
vs.)	
	)	COMPLAINT
WESTERN BOND & MORT-	)	IN EQUITY
GAGE COMPANY, a corporation,)	
C. H. FARRINGTON, E. F.	)	U. S. DISTRICT
O'FLYNN, W. E. JOHNSON,	)	COURT
BEN WALLING, LAUREL IN-	)	District of
VESTMENT COMPANY, a cor-	)	Oregon
poration, WESTERN GUARAN-	)	Filed
TY COMPANY, a corporation,	)	Mar. 13, 1931
BEACON INVESTMENT COM-)	
PANY, a corporation,)	
)	
Defendants.)	

Now comes the plaintiff, and for cause of suit
herein against the defendants alleges:

I.

* * * * *

During all of the times herein mentioned defend-
ant Laurel Investment Company was and now is a
corporation duly organized, created and existing un-
der and by virtue of the laws of the State of Oregon.

On or about December 1, 1930, defendant Western
Guaranty Company was organized under the laws of
the State of Oregon, and ever since was and now is a
corporation duly created, organized and existing un-

der and by virtue of the laws of the State of Oregon.

* * * * *

III.

That during all of the times herein mentioned the defendant C. H. Harrington owned and controlled a majority of the capital stock, and completely controlled and dominated, the defendant Laurel Investment Company, and now owns a majority of the capital stock thereof and controls and dominates the affairs of said corporation. That for more than five (5) years last past the defendant C. H. Farrington and said Laurel Investment Company have owned and controlled a majority of the outstanding common stock, which has the exclusive voting power, of Western Bond & Mortgage Company, and through such ownership the said C. H. Farrington during all of said time, and up to about December 20, 1930, entirely controlled, dominated and directed the affairs and transactions of said Western Bond & Mortgage Company.

That the defendant C. H. Farrington caused the defendant Western Guaranty Company to be organized about December 1, 1930, the incorporators thereof being three persons then in the employ of Western Bond & Mortgage Company as clerks, and subject to the control and direction of the said C. H. Farrington, who then and for many years prior thereto was a director, President and general manager of said last named corporation. That when said corporation was organized substantially all of the capital stock thereof

was issued to Laurel Investment Company by direction of the defendant C. H. Farrington, and thereafter, and in the manner and for the purpose hereinafter more fully set forth, the said capital stock was issued to Western Bond & Mortgage Company by direction of the said defendant C. H. Farrington in exchange for a large amount in value of the assets of the Western Bond & Mortgage Company.

That on or about December 1, 1930, the defendant C. H. Farrington caused the defendant Beacon Investment Company to be organized, the incorporators thereof being three employees of Western Bond & Mortgage Company, who acted under the direction of the said defendant Farrington. That after said corporation was organized, and by direction of the said defendant Farrington, all of the capital stock thereof was issued to Western Bond & Mortgage Company, and at the same time the said Farrington caused to be taken out of and transferred from the assets of Western Bond & Mortgage Company, a considerable sum in value to Beacon Investment Company.

IV.

Some time prior to December 20, 1930, defendants C. H. Farrington, W. E. Johnson, E. F. O'Flynn and Ben Walling entered into an agreement among themselves, and concerted and conspired together to engage in and consummate a series of transactions through which the defendant Farrington, directly and through Laurel Investment Company, should abstract,

obtain and appropriate to themselves, and without consideration, property and assets of Western Bond & Mortgage Company in the sum and value of upwards of Three Hundred Thousand (\$300,000.00) Dollars, and the defendants O'Flynn, Johnson and Walling should obtain control of a majority of the common stock of the Western Bond & Mortgage Company and thus a control of the affairs of said corporation. In execution of this agreement, concert and conspiracy, the defendant Farrington caused the Western Guaranty Company to be organized with a capital stock of Five Thousand (\$5,000.00) Dollars, which capital stock he caused to be issued to the Laurel Investment Company, which latter corporation, as heretofore alleged, was entirely controlled by him. Thereupon he caused the Western Bond & Mortgage Company, which also was entirely controlled by him through the stock ownership as hereinbefore alleged, to transfer to the Laurel Investment Company assets and property of Western Bond & Mortgage Company in the sum and value of upwards of Three Hundred Thousand (\$300,000.00) Dollars, in exchange for the capital stock of Western Guaranty Company, in exchange for the capital stock of Western Guaranty Company as hereinbefore stated. About the same time, and in consummation of the aforesaid agreement, concert and conspiracy, the defendants C. H. Farrington and Lurel Investment Company went through the form of agreeing to transfer unto the defendants O'Flynn, Walling and Johnson, or their

order, a majority of the common or voting stock of Western Bond & Mortgage Company, in consideration of the transfer unto the defendants Farrington and Laurel Investment Company of certain substantially worthless properties and securities which it was then agreed between said parties should be, in fact, and in the manner hereinafter described, taken over by the Western Bond & Mortgage Company in exchange for the stock of the Western Guaranty Company, thus enabling the defendant Farrington, directly and through the medium of said Laurel Investment Company, to obtain the properties and assets of the Western Bond & Mortgage Company in the sum or value of upwards of Three Hundred Thousand (\$300,000.00) Dollars which had been abstracted and appropriated from the stock of the Western Guaranty Company as hereinbefore set forth. Thereupon the defendants O'Flynn, Johnson and Walling went through the form of transferring or issuing unto the Laurel Investment Company and Farrington the following: (a) one Hundred (100) shares of no par value stock of Lake Lucerne, a Washington corporation, which corporation did not have at that time, and has not now, any substantial financial responsibility; and (b) Conditional sales contracts on automobiles, which were a number of old, defaulted and delinquent conditional sales contracts, which were worthless, as plaintiff is informed and believes and alleges the fact to be; and (c) A note in the sum of \$24,750.00 said to be secured by chattel mortgage executed by Ljung-

dahl Products Corporation of Tacoma to Massachusetts Mortgage Company, a Washington corporation, which note, as plaintiff is informed and believes and therefore alleges the fact to be, was uncollectible and of no substantial value; and (d) Note executed by W. J. Burwell to Massachusetts Mortgage Company for \$19,477.70, which note, as plaintiff is informed and believes and alleges the fact to be, was uncollectible and of no substantial value; and (e) Note of Massachusetts Mortgage Company to Laurel Investment Company dated December 20, 1930, for \$87,000.00.

The Massachusetts Mortgage Company, as stated, is a corporation organized and existing under and by virtue of the laws of the State of Washington, with its principal office in Seattle, and about a year or more ago the defendants O'Flynn and Walling obtained control thereof by acquiring a majority of the voting stock. That said corporation for some time has been in financial difficulties. That upon information and belief plaintiff avers that said note for \$87,000.00 was executed by Massachusetts Mortgage Company without consideration and without authority from its Board of Trustees, and that for these reasons, and further because of the doubtful financial condition of the said corporation, it is uncollectible. And upon information and belief the plaintiff further avers that all of the other properties hereinbefore described in subdivisions (a), (b), (c) and (d) of this paragraph, were the properties of Massachusetts

Mortgage Company, and the said transfers were made by the defendants O'Flynn and Walling for their own personal purposes and were without consideration to or authority from the Board of Directors of said corporation.

V.

On or about the 20th day of December, 1930, and in furtherance of said agreement, concert and conspiracy, a meeting of the Board of Directors of Western Bond & Mortgage Company was held. Present at said meeting were the defendant C. H. Farrington, President and director of said corporation, and B. Lyle McCroskey, Secretary and director of said corporation. Thereupon the said Farrington and McCroskey, acting as directors, did elect the defendants Johnson and O'Flynn directors to fill two vacancies on the Board, and thereupon the said Farrington and McCroskey resigned as directors and as president and secretary, respectively, and thereupon E. J. Boxer, a business associate of the defendants Walling, Farrington and Johnson, and connected with the Ljungdahl Products Corporation aforesaid, was elected a director, and thereupon the defendant Johnson was elected President and the said O'Flynn was elected Secretary and Treasurer of the corporation. And thereupon, at the same meeting, the defendant Farrington, through the Laurel Investment Company, offered to exchange the various items of property described in subdivisions (a), (b), (c) and (e) of the preceding paragraph hereof, for all of the capital

stock of Western Guaranty Company, and this proposal was in form accepted by Western Bond & Mortgage Company by a vote of the defendants Johnson and O'Flynn. That this proposal was made and accepted in the manner aforesaid pursuant to the aforesaid agreement, concert and conspiracy, and to enable the defendant Farrington, directly and through the Laurel Investment Company, to obtain and appropriate properties of the Western Bond & Mortgage Company of the value of upwards of Three Hundred Thousand (\$300,000.00) Dollars, which had, as heretofore alleged, been abstracted and turned over to the Laurel Investment Company in exchange for the capital stock of Western Guaranty Company, and to enable the defendants O'Flynn, Johnson and Walling to obtain control of Western Bond & Mortgage Company through the use of the properties and assets of the Massachusetts Trust Company for that purpose in the manner herein set forth. That, as heretofore stated, the assets and properties so transferred by Laurel Investment to Western Bond & Mortgage Company in exchange for the capital stock of Western Guaranty Company were and are substantially worthless, which fact was at all times well known to the defendants Farrington, Laurel Investment Company, O'Flynn and Johnson and the said transactions were carried through with the intention and for the purpose of enabling the defendant Farrington to obtain upwards of Three Hundred Thousand (\$300,000.00) Dollars of the property of the Western Bond

& Mortgage Company without any substantial consideration therefor, and to enable the defendants Johnson, Walling and O'Flynn to obtain control of Western Bond & Mortgage Company without paying any substantial consideration therefor.

VI.

That for upwards of five (5) years prior to the commencement of this suit the defendant Farrington, through the control of the Western Bond & Mortgage Company, has by numerous devices so managed and manipulated the business, transactions and affairs of said corporation, and sundry other corporations which he organized and controlled so as to impose many losses upon the Western Bond & Mortgage Company, and shift to it many questionable or worthless securities in exchange or by way of substitution for valuable properties and securities abstracted and taken over by the defendant Farrington, directly or through one of his numerous corporations. That during said time the defendant Farrington, directly or through sundry of the smaller corporations organized and controlled by him, as plaintiff is informed and believes, and therefore alleges the fact to be, has collected and retained very large sums as commissions upon loans made of the funds of the Western Bond & Mortgage Company, and large commissions upon insurance policies issued in connection with said loans, and has taken mortgages in the name of the Western Bond & Mortgage Company very much in excess of the sums loaned thereon, and has used and converted

the difference, directly or through sundry of his corporations; and has collected and used, directly and through sundry of his corporations, large sums by way of commissions and other charges in connection with the purchase and disposition of automobile paper with the funds of the Western Bond & Mortgage Company; and has at divers times substituted securities of little or no value which he had acquired, directly or through some of his sundry corporation, for securities of full value owned by the Western Bond & Mortgage Company, so that there would pass into the assets of Western Bond & Mortgage Company the said questionable, doubtful or worthless securities, and pass out from its assets securities of full and unquestioned value.

* * * * *

XIII.

* * * * *

That it would be useless to make demand upon the defendants, Johnson, O'Flynn and Walling to seek to recover from the Laurel Investment Company and Farrington the capital stock of Western Guaranty Company or to recover for the Western Bond & Mortgage Company the assets taken out in exchange for the capital stock of Western Guaranty Company, for the reason that said transactions were initiated and consummated as the result of the agreement, concert and conspiracy to which the said Johnson, O'Flynn and Walling were parties, as hereinbefore alleged, and it would be necessary, in order for them to seek

any judicial redress in behalf of the corporation with respect to such transactions, to sue and to charge themselves with improper, wrongful and corrupt conduct with respect to such matters. And it would be equally futile and useless to seek corporate redress for the wrongs committed on the corporation by the defendant Farrington, directly and through his sundry corporations as hereinbefore alleged, through the defendants O'Flynn, Walling and Johnson, or through any suit or action controlled or directed by them, for the obvious reason that it would be necessary for them to sue Farrington, with whom they concerted and conspired as hereinbefore alleged.

* * * * *

WHEREFORE, Plaintiff prays for the decree of this court as follows:

1. That the defendant C. H. Farrington be required to account for all commissions and all profits made by him, and all sums received by him, in connection with the business, transactions and affairs of the Western Bond & Mortgage Company, other than the salary to which he became entitled as an officer of said corporation and as fixed and authorized by the Board of Directors thereof, and for all moneys, assets and properties of every character taken from the said Western Bond & Mortgage Company and transferred either to the Laurel Investment Company, the Western Guaranty Company, the Beacon Investment Company, or any other of the sundry corporations controlled by the defendant C. H. Farrington;

2. That the defendant, Laurel Investment Company, be required to account for and to turn back to Western Bond & Mortgage Company all moneys, assets and properties of every character which it received in exchange for the capital stock of Western Guaranty Company, and all other moneys, assets and properties whatsoever which have been transferred to it by Western Bond & Mortgage Company;

3. That the defendant Beacon Investment Company be required to account for and turn back to Western Bond & Mortgage Company all moneys, properties and assets which it has received from or which have been transferred to it by Western Bond & Mortgage Company;

4. That the defendant Western Guaranty Company be required to account for and to turn back to Western Bond & Mortgage Company all moneys, assets and properties whatsoever which it has received from or which have been transferred to it by Western Bond & Mortgage Company;

5. That the defendants, and particularly the defendant C. H. Farrington, be required to account for all mortgages and other securities of value which have been taken from the assets of Western Bond & Mortgage Company, and mortgages and securities of less value substituted therefor;

6. That the defendants W. E. Johnson, E. F. O'Flynn and Ben Walling be required to account for and be held liable for the full value of all moneys,

assets and properties whatsoever belonging to Western Bond & Mortgage Company and which were by it transferred or delivered over to the defendants C. H. Farrington, Western Guaranty Company, Laurel Investment Company, Beacon Investment Company, or either thereof;

7. That full inquiry be made into, and an accounting had of all matters and transactions referred to in the complaint, and that the defendants, and particularly the defendant C. H. Farrington be held liable to Western Bond & Mortgage Company for all moneys, assets and properties whatsoever of the Western Bond & Mortgage Company lost, wasted or unlawfully appropriated or taken from the assets of Western Bond & Mortgage Company by reason of all the matters, things and transactions mentioned in the complaint;

8. That the defendants Western Bond & Mortgage Company and W. E. Johnson, E. F. O'Flynn, Ben Walling as officers and directors of Western Bond & Mortgage Company, be enjoined and restrained, pending the determination of this suit, from using, appropriating, transferring or otherwise disposing of any of the funds, assets and property whatsoever of Western Bond & Mortgage Company, and from withdrawing any mortgages or other securities from the Lawyers Title and Trust Company, or any other corporation, acting as trustee of any moneys, mortgages or other securities belonging to Western Bond &

Mortgage Company;

9. That a receiver be appointed for all of the choses in action, rights of action and suits whatsoever of Western Bond & Mortgage Company, to hold, manage and conserve the same until the determination of this suit, or in the alternative to take over and hold all of the properties and assets of said Western Bond & Mortgage Company, to prosecute all choses in action, rights of action and suits whatsoever, and to wind up the business affairs of said corporation;

10. For such other and further relief as to the court may seem just and equitable in the premises.

(s) CLARK & CLARK,
Attorneys for Plaintiff.

UNITED STATES OF AMERICA	}	ss:
District of Oregon		
County of Multnomah		

I, JOHN BROCKIE, Being first duly sworn, depose and say that I am the plaintiff in the above entitled cause; and that the foregoing complaint is true, as I verily believe.

(s) JOHN BROCKIE.

Subscribed and sworn to before me this 9th day of March, 1931.

(s) VIVIAN FLEXNER,
Notary Public for Oregon.

My Commission expires December 14, 1931.

DEFENDANTS' EXHIBIT 63

(Excerpt from Article Appearing in Oregon Journal,
Published in Portland, Oregon, March 31,
1931 — Pg. 17, Column 6)

An order to show cause why a receiver should not be appointed for the Western Bond & Mortgage company and affiliated concerns was signed by Federal Judge McNary today after a complaint in equity had been filed by Colonel A. E. Calrk and Malcolm H. Clark, attorneys for John Brockie, plaintiff.

The complaint names as defendants, in addition to the Western Bond & Mortgage company, C. H. Farrington, president of the concern; E. F. O'Flynn, W. E. Johnson, Ben Walling, the Laurel Investment company, the Western Guaranty company and the Beacon Investment company.

The complaint involves more than \$800,000 for which the defendant is said to be liable, this amount being the total of installment bonds which are promissory notes of the defendant. These bonds or notes, it is claimed, were sold to the holders on the agreement and representation that they would be amply secured by real estate mortgages placed on deposit with a trustee.

There are also outstanding, in addition to the \$800,000, the complaint alleges, some \$12,000 or more of "participation certificates" in real estate mortgages, whereby the investors purchased an interest in mortgages or groups of mortgages. There are certificates of that character outstanding and unredeemed in the sum of \$51,000 it is alleged.

Other outstanding obligations against the firm are in excess of \$20,000, it is cited.

A complete account of all funds and salaries is asked in the suit which alleges that through various transfers of assets the creditors have been deprived of security for their investments in the firm.

DEFENDANTS' EXHIBIT 64

(Article Appearing in Portland Telegram—March 13, 1931—Pg. 1, Column 5)

Charges that C. H. Farrington, president and former director of the Western Bond & Mortgage company, through an intricate network of dummy-incorporated companies has recently abstracted more than \$300,000 worth of the assets of the former firm, are contained in a complaint filed in federal court Friday by John Brockie, Idaho stockman and stockholder in the mortgage company.

The complaint charges that for years past the Western Bond & Mortgage company has been insolvent, but that Farrington, by manipulation of worthless and questionable securities held, has concealed its condition from the stockholders and creditors of the firm.

Defendants named besides Farrington and the Western Bond & Mortgage company are E. F. O'Flynn, W. E. Johnson, Ben Walling, the Laurel Investment company, the Western Guaranty company and the Beacon Investment company. The suit was filed by A. E. Clark and Malcolm H. Clark, attorneys.

Brockie asks for a full accounting of the affairs of the Western Bond & Mortgage company and the appointment of a receiver; restitution by the Laurel Investment company, Beacon Investment company and Western Guaranty company of the Western Bond & Mortgage company of its securities, alleged to have been exchanged for worthless and questional securities, and an accounting by Farrington of all the commissions and profits taken from the firm aside from his salary, and of all the moneys and assets transferred from the Western Bond & Mortgage company to the other companies.

DEFENDANTS' EXHIBIT 65

(Excerpt from Article Appearing in Oregonian, Published in Portland, Oregon, March 14, 1931—Pg. 2, Column 1)

Suit asking for a receivership for the Western Bond & Mortgage company and for an accounting of assets, securities and earnings of the company, and of its ex-president, C. H. Farrington, was filed in federal district court yesterday by John Brockie, an Idaho stockholder in the company, against Farrington, three of his business associates and three corporations he is alleged to have organized from time to time. Federal Judge McNary signed an order citing the defendants to show cause why a receiver should not be appointed.

The complaint charges Farrington with shifting assets and property of the Western Bond & Mortgage company, the Laurel Investment company, Western Guaranty company and Beacon Investment company from one to the other in such a manner that many securities which the complaint alleges are practically worthless were left in the hands of the Western Bond & Mortgage company, whereas the other corporations, of which Farrington was said to be organizer and principal owner, gained valuable securities.

Return to the Western Bond & Mortgage company of assets received in exchange for capital stock of the Laurel Investment company, Beacon Investment company and Western Guaranty company are asked in the suit. The suit also asks that a full inquiry be made into transactions specified in the complaint and that Farrington be held liable to the Western Bond & Mortgage company for all assets alleged to have been lost, wasted and unlawfully appropriated.

DEFENDANTS' EXHIBIT 66

IN THE DISTRICT COURT OF THE UNITED
STATES FOR THE DISTRICT OF OREGON

JOHN BROCKIE,	)	No. E-9189
)	
Plaintiff,	)	ANSWER
)	
vs.	)	OF WESTERN
	)	BOND AND
WESTERN BOND & MORT-	)	MORTGAGE
GAGE COMPANY, a corporation,	)	COMPANY
C. H. FARRINGTON, E. F.	)	AND BEACON
O'FLYNN, W. E. JOHNSON,	)	INVESTMENT
BEN WALLING, LAUREL IN-	)	COMPANY
VESTMENT COMPANY, a cor-)	
poration, WESTERN GUARAN-	)	U. S. District
TY COMPANY, a corporation,	)	Court
BEACON INVESTMENT COM-	)	District of
PANY, a corporation,	)	Oregon
	)	Filed
Defendants.	)	Mar. 23, 1941

Come now Western Bond and Mortgage Company and Beacon Investment Company, two of the above named defendants, and for their answer to the Complaint herein, admit, deny and allege as follows:

* * * * *

III.

Answering Paragraph III thereof, defendants deny that defendant C. H. Farrington owned and controlled a majority of the common stock and dominated Laurel Investment Company during all of the times mentioned in the Complaint, or at any time except from and after on or about November 1, 1930 when

he acquired such stock; deny that for more than five years C. H. Farrington and Laurel Investment Company owned and controlled a majority of the outstanding common stock of Western Bond and Mortgage Company, or any other or longer period than from on or about November 1, 1929, and up to December 20, 1930; deny that C. H. Farrington caused Western Guaranty Company to be organized; and deny that when organized its capital stock was issued to Laurel Investment Company; defendants allege that the directors of Western Bond and Mortgage Company caused said Western Guaranty Company to be organized on or about December 1, 1930, and that when it was organized its capital stock was issued to Western Bond and Mortgage Company in exchange for certain assets owned by the Western Bond and Mortgage Company.

* * * * *

IV.

Answering Paragraph IV thereof, defendants, except as herein specifically admitted, deny each and every allegation in said paragraph and the whole thereof; and defendants specifically deny that the defendants C. H. Farrington, W. E. Johnson, E. F. O'Flynn and Ben Walling, or either or any of them prior to December 20, 1930, or at any other time, entered into an agreement, or any agreement and concerted and conspired to do or cause to be done or did any of the things, transactions or acts sets forth therein; and defendants specifically deny that the

properties mentioned in subdivisions (a), (b), (c), (d) and (e) thereof were then or are now worthless or of little value; and deny specifically that the said Massachusetts Mortgage Company was then or for a long time had been or is now in financial difficulties; deny specifically that said acts were done without authority of its Board of Directors; and Defendants specifically deny that plaintiff is now or was informed and believed any or all of the facts he has alleged in said paragraph.

Further answering said Paragraph, defendants alleges that on or about December 20, 1930, the Massachusetts Mortgage Company, a corporation and the Laurel Investment Company on or about December 20, 1930, entered into an agreement pursuant to the terms of which the defendant Laurel Investment Company agreed to sell and the Massachusetts Mortgage Company agreed to purchase 5,662 shares of the Common Capital Stock of defendant Western Bond and Mortgage Company, all of which stock it owned and possessed at that time, whether standing on the books of said Western Bond and Mortgage Company in its name or not, and in payment of which it was agreed by said corporations that the Massachusetts Mortgage Company should transfer or cause to be transferred to the Laurel Investment Company the following described property, to-wit:

(a) 100 shares of the Capital stock of Lake Lucerne, a Washington corporation;

(b) Conditional sales contracts on automobiles of

the value of \$22,661.03;

(c) A promissory note of the Ljungdahl Products Corporation, a Washington corporation, in the sum of \$24,750.00;

(d) A promissory note of W. J. Burwell to the Massachusetts Mortgage Company of \$19,477.70; and

(e) A promissory note of the Massachusetts Mortgage Company for the sum of \$87,000.00, which latter note it was then and there agreed, could be paid by a note in said sum of the Northwest Hotels and Realty Corporation, a Washington corporation, to be secured by a mortgage upon certain real property in the City of Tacoma, Washington; that all of said properties are the same properties described in Paragraph IV of the Complaint; that at said time said parties consummated said transaction and made the exchange thereof as agreed and as herein set forth, and the Massachusetts Mortgage Company thereupon became the owner of the said stock of the Western Bond and Mortgage Company; that all of said transactions were had and done pursuant to the authority of the Boards of Directors of said corporations, and that all of the said properties transferred by the Massachusetts Mortgage Company had a real and substantial value, to-wit, the sum of \$253,888.73.

V.

Answering paragraph V. thereof, defendants except as herein specifically admitted, deny each and every allegation of said Paragraph and the whole thereof; and defendants specifically deny that any of

the transactions mentioned therein were in furtherance of said "agreement, concert or conspiracy" or any agreement, concert and conspiracy; and defendants specifically deny that the properties therein mentioned, and described in paragraph IV of the Complaint in subdivisions (a), (b), (c), (d) and (e) were or are worthless or substantially worthless; and defendants specifically deny that there was transferred or assigned or given to C. H. Farrington upwards of \$300,000.00 of the property of the Western Bond and Mortgage Company or any property whatsoever.

Defendants admit that the directors of the Western Bond and Mortgage Company held by December 20, 1930, the meeting of its Board of Directors in said paragraph mentioned, and admit that at said meeting W. E. Johnson, E. F. O'Flynn and E. J. Boxer were elected directors of said corporation, and that C. H. Farrington and V. Lyle McCroskey then resigned as directors thereof.

Further answering said paragraph, defendants allege that on or about December 20, 1930, after the transaction had between the Massachusetts Mortgage Company and the Laurel Investment Company, set forth in the preceding paragraph of the Answer, was consummated, and closed by the exchange of said properties, that a meeting of the directors of Western Bond and Mortgage Company was held, and that at said meeting W. E. Johnson, E. F. O'Flynn and E. J. Boxer were elected directors thereof to fill vacan-

cies then existing on said Board, and qualified to act as such directors; that C. H. Farrington and V. Lyle McCroskey resigned as directors of said corporation.

That thereupon the Western Bond and Mortgage Company, and the Laurel Investment Company entered into an agreement pursuant to the terms of which the Western Bond and Mortgage Company agreed to sell and transfer to the Laurel Investment Company, and it agreed to purchase from the Western Bond and Mortgage Company the capital stock of Western Guaranty Company it owned, consisting of 500 shares, and as payment for said capital stock the Laurel Investment Company agreed to transfer to the Western Bond and Mortgage Company, and it agreed to accept the following described property, to-wit:

(a) 100 shares of the Capital stock of Lake Lucerne, a Washington corporation;

(b) Conditional Sales Contracts on automobiles of the value of \$22,661.03;

(c) A promissory note of Ljungdahl Products Corporation, a Washington corporation in the sum of \$24,750.00;

(d) A promissory note of W. J. Burwell in the sum of \$19,477.70; and

(e) A promissory note of the Massachusetts Mortgage Company for the sum of \$87,000.00, which note it was then and there agreed could be paid by a note of the Northwest Hotels and Realty Corporation, a Washington corporation, for the sum of \$87,000.00,

which note was to be secured by a mortgage upon real property in the City of Tacoma, Washington;

That at said time the said parties, the Western Bond and Mortgage Company and the Laurel Investment Company, consummated said transaction and made the exchange of said properties as agreed upon, and as herein set forth, and the Western Bond and Mortgage Company became the owner of said properties described in subdivisions (a), (b), (c), (d) and (e) hereof, and at said time it transferred, or caused to be transferred to Laurel Investment Company, the said 500 shares of the capital stock of Western Guaranty Company; that the properties received in said transaction and herein described had a real and substantial value, to-wit; the sum of \$253,888.73; that the said shares of stock of Western Guaranty Company were valued at about the sum of \$227,228.50;

That all of said transactions between the Western Bond and Mortgage Company and Laurel Investment Company were had and done pursuant to the authority of the Boards of Directors of said corporation, and thereafter at the Annual Meeting of Stockholders of Western Bond and Mortgage Company the said transactions of its Board of Directors were duly ratified, confirmed and approved.

VI.

Answering Paragraph VI thereof, defendants specifically deny each and every allegation contained therein.

VII.

Answering Paragraph VII thereof, defendants deny that C. H. Farrington handled, juggled and manipulated the mortgages mentioned therein in such a way as to make it appear that they were not in default, or for the purpose of deceiving stockholders of the Western Bond and Mortgage Company, deny that C. H. Farrington caused the corporations therein named to be organized, and allege in connection therewith the corporations named therein, which were and are owned by the Western Bond and Mortgage Company, were formed and organized pursuant to the authority and direction of the directors of said company.

Deny that the Keystone Finance Company was organized to take possession of the lands in Crook County, but admit that said corporation some time after its organization did take title to said lands in Crook County and gave the Western Bond and Mortgage Company the mortgages therein described; deny that said mortgages are delinquent, and deny that said lands have a value of not more than \$70,000.00.

* * * * *

Admit Western Bond and Mortgage Company carries on its books 100 shares of the capital stock of Lake Lucerne, a Washington corporation, in the sum of \$100,000.00; deny that the same has no substantial value; the defendants believe and therefore allege that the same has a value of \$100,000.00 or more.

Admit Western Bond and Mortgage Company

carries 150 shares of the capital stock of Western Insurance Company in the sum of \$15,000.00; deny that the same has no substantial value; defendants believe and therefore allege that the same has a value of \$15,000.00 or more.

XI.

Answering Paragraph XI thereof, defendants admit that there are certain livestock loans carried on the books of the Western Bond and Mortgage Company, and that some of the same may be uncollectible.

Defendants deny that the miscellaneous notes in the total amount of \$154,204.00 are worthless or uncollectible and deny specifically that the said Massachusetts Mortgage Company note of \$87,000.00, the note of W. Burwell and the note of Ljungdahl Products Corporation or any of them are uncollectible.

Defendants believe and therefore allege that all of said notes are worth their full face value and further allege that said Massachusetts Mortgage Company note has been paid in the manner agreed upon as heretofore alleged, that payment thereof was made by a note of Northwest Hotels and Realty Corporation, a Washington corporation, for the sum of \$87,000.00 which note is secured by a mortgage upon a very valuable parcel of real property in Tacoma, Washington.

XII.

Defendants admit that among the assets of Western Bond and Mortgage Company are carried livestock open accounts in the sum of \$67,096.53, but deny

that all of the same are uncollectible, and specifically deny that said accounts have been kept and maintained for the purpose of deceiving stockholders and creditors of said corporation and concealing the true condition thereof.

Defendants believe and therefore allege that upon return to normal conditions the greater part of said accounts will be paid.

* * * * *

For a separate and distinct defense in point of law arising upon the face of the bill of complaint herein, defendants allege:

* * * * *

WHEREFORE, these defendants pray judgment that plaintiff's bill of complaint be dismissed with costs to these defendants, and for such other and further relief that may be just and equitable in the premises.

(s) J. P. KAVANUGH AND OSCAR FURUSET

Attorneys for Defendants
Western Bond and Mortgage Company
Beacon Investment Company
605 Title & Trust Bldg.
Portland, Oregon.

DEFENDANTS' EXHIBIT 67

IN THE DISTRICT COURT OF THE UNITED
STATES FOR THE DISTRICT OF OREGON

JOHN BROCKIE,

Plaintiff,

vs.

WESTERN BOND & MORT-
GAGE COMPANY, a corporation,
C. H. FARRINGTON, E. F.
O'FLYNN, W. E. JOHNSON,
BEN WALLING, LAUREL IN-
VESTMENT COMPANY, a cor-
poration, WESTERN GUARAN-
TY COMPANY, a corporation,
BEACON INVESTMENT COM-
PANY, a corporation,

Defendants.

No. E-9189

ANSWER
OF C. H.
FARRINGTON

U. S. District
Court
District of
Oregon
Filed
April 1, 1931

For answer to the bill of complaint of plaintiff herein, defendant C. H. Farrington says:

I.

Answering the first paragraph of the bill this defendant admits that Western Bond & Mortgage Company, Western Guaranty Company and Beacon Investment Company are corporations, and were organized as alleged in said paragraph; admits that Laurel Investment Company is a corporation, but alleges that it was incorporated on or about December 9, 1929.

III.

Answering Paragraph III this defendant denies that he owned or controlled the majority of the capital stock or controlled or dominated defendant Laurel Investment Company at all the times mentioned in the complaint, or at any time, except that he purchased all of the capital stock of Laurel Investment Company on the 15th day of October, 1930, and has ever since owned same and now owns same; denies that for more than five years last past he and Laurel Investment Company, or either or both of them, owned or controlled a majority of the outstanding common stock of Western Bond & Mortgage Company, and alleges that he and Laurel Investment Company first acquired a majority of the common stock of Western Bond & Mortgage Company on October 29, 1929, and continued to own such a majority of said common stock until December 20, 1930 since which time neither of said defendants has owned any of the common stock of said Western Bond & Mortgage Company; denies that he at any time controlled or dominated the affairs of Laurel Investment Company, or of Western Bond & Mortgage Company, and alleges that the control and domination of said corporations were at all times vested in their respective Boards of Directors.

This defendant denies that he caused defendant Western Guaranty Company to be organized and alleges that said corporation was caused to be organized by the directors of the Western Bond & Mortgage

Company; admits that it was organized about December 1, 1930, and that the incorporators were three employes of Western Bond & Mortgage Company; denies they were subject to his control or direction; admits that he was for many years and up to December 20, 1930 the President and a director of Western Bond & Mortgage Company; denies that the capital stock of the Western Guaranty Company was on its incorporation issued to defendant Laurel Investment Company by his direction, or otherwise; denies that said capital stock of Western Guaranty Company was later issued to Western Bond & Mortgage Company by his direction, or otherwise, or in exchange for a large amount or any amount in value of the assets of Western Bond & Mortgage Company, and alleges that upon the incorporation of Western Guaranty Company all of its capital stock was issued to Western Bond & Mortgage Company.

* * * * *

IV.

Answering Paragraph IV of the bill of complaint this defendant denies each and every allegation therein, except as hereinafter admitted and specifically denies that he, W. E. Johnson, E. F. O'Flynn and Ben Walling, or any one or more of them, prior to December 20, 1930, or at any other time, entered into any agreement among themselves, or concerted or conspired together to do any of the acts, things or transactions set forth in said paragraph; denies that he ever entered into any agreement of any kind with the

said W. E. Johnson, E. F. O'Flynn and Ben Walling, or any one or more of them; denies that he ever concerted or conspired with any one or more of the other persons named in said paragraph, or any other person, partnership or corporation to abstract, obtain or appropriate without adequate consideration any property or assets of the Western Bond & Mortgage Company of the value of the sum of \$300,000.00, or any value, and either through Laurel Investment Company or in any other manner; denies that he entered into any agreement, arrangement, conspiracy or concert with defendants O'Flynn, Johnson and Walling, or any one or more of them, or any other person to the end that the defendants O'Flynn, Johnson and Walling, or any one or more of them, should obtain control of a majority or any of the common stock of Western Bond & Mortgage Company.

Denies that he caused the Western Guaranty Company to be organized in execution of any agreement, concert or conspiracy, or otherwise, or at all; admits that Western Guaranty Company was organized with a capital stock of \$5,000.00; denies that he caused the capital stock of Western Guaranty Company to be issued to Laurel Investment Company, and denies that said capital stock was in fact issued to Laurel Investment Company.

Denies that defendant Western Bond & Mortgage Company was at any time entirely controlled or controlled at all by him; denies that he caused Western

Bond & Mortgage Company to transfer to Laurel Investment Company assets and property of Western Bond & Mortgage Company in the sum and value of upwards of \$300,000.00, or any other sum or value, or at all.

Admits that he and Laurel Investment Company sold to Massachusetts Mortgage Company 5145 shares of the common stock of Western Bond & Mortgage Company, but denies that said transfer was in pursuance of of any agreement, concert or conspiracy with the defendants O'Flynn, Johnson and Walling, or any one or more of them, either for the purposes described in said paragraph, or any other purpose.

Admits that after he and Laurel Investment Company had sold said stock to Massachusetts Mortgage Company and he had resigned as an officer and director of Western Bond & Mortgage Company and the positions he had held were filled by the new owners of said common stock, that defendant Laurel Investment Company traded to Western Bond & Mortgage Company the assets referred to in Subdivisions (a), (b), (c), (d) and (e) of said Paragraph IV for all of the capital stock of Western Guaranty Company; denies that said assets listed in Subdivisions (a) (b), (c), (d) and (e) were then or are now worthless or of little value, and alleges that the value of said assets at the time of said transfer equalled or exceeded the value of all of the capital stock of Western Guaranty Company.

This defendant alleges that he is without knowledge as to the ownership of the capital stock of Massachusetts Mortgage Company; denies that the Massachusetts Mortgage Company is or has been for some or any time in financial difficulties; denies that the note of the Massachusetts Mortgage Company for \$87,000.00 was executed without consideration or without authority from its Board of Trustees; denies that said note is uncollectible; admits that the assets listed in said paragraphs as (a), (b), (c), (d) and (e) belonged to Massachusetts Mortgage Company prior to the sale by defendants C. H. Farrington and Laurel Investment Company for said shares of common stock of the Western Bond & Mortgage Company owned by them; denies that the transfers of said assets or any other transfers referred to in said paragraph were made by the defendants O'Flynn and Walling either for their own personal purposes or at all, and denies that any of said transfers were without consideration to or authority from the Board of Trustees of Massachusetts Mortgage Company.

Further answering said paragraph this defendant alleges that on or about December 20, 1930 he and Laurel Investment Company sold to Massachusetts Mortgage Company 5145 shares of the common capital stock of defendant Western Bond & Mortgage Company, and in payment therefor Massachusetts Mortgage Company transferred to Laurel Investment Company the following described property, to wit:

(a) 100 shares no par stock Lake Lucerne, a

Washington corporation, being all of the capital stock of said corporation.

(b) Conditional sales contracts on automobiles totaling in value \$22,661.03.

(c) Mortgage from Ljungdahl Products Corporation to Massachusetts Mortgage Company upon a leasehold of lands in Pierce County, Washington, the amount of unpaid principal being at the time \$24,750.00.

(d) Note from W. I. Burwell to Massachusetts Mortgage Company in the amount of \$19,477.70 and certain collateral securities listed therein.

(e) Note of Massachusetts Mortgage Company to Laurel Investment Company dated December 20, 1930 for \$87,000.00.

This defendant further alleges that said purchase of said stock of Western Bond & Mortgage Company and the transfer to Laurel Investment Company of the assets above referred to was authorized by the Board of Trustees of Massachusetts Mortgage Company.

V.

For answer to Paragraph V of the bill of complaint this defendant admits that at a meeting of the Board of Directors of Western Bond & Mortgage Company held December 20, 1930, C. H. Farrington and V. Lyle McCroskey resigned as directors of said corporation and W. E. Johnson, E. F. O'Flynn and E. J. Boxer were elected directors of said corporation.

This defendant further admits that after his resignation and that of V. L. McCroskey and the election of their successors, that defendant Laurel Investment Company sold to Western Bond & Mortgage Company the assets listed in subdivision (a), (b), (c), (d) and (e) of the preceding paragraph of this answer, and that Western Bond & Mortgage Company purchased the same and paid therefor by transferring to Laurel Investment all of the capital stock of Western Guaranty Company.

This defendant denies that said change in the personnel of the Board of Directors of Western Bond & Mortgage Company, and said trade of assets for the capital stock of the Western Guaranty Company, or any one or more of said events or transactions were in pursuance of any conspiracy, agreement or consent as alleged in Paragraph V of the complaint, or otherwise.

This defendant denies that E. J. Boxer is or ever has been a business associate of this defendant, and is without knowledge as to whether he is or ever was a business associate of defendants Walling and Johnson, or either of them, or whether he is or ever was connected with the Ljungdahl Products Corporation.

This defendant denies that said transfer of said assets for said Western Guaranty Company stock was in pursuance of any conspiracy or other than in the usual course of business; denies that any properties of the Western Bond & Mortgage Company of

the value of \$300,000.00 or of any value whatever had been abstracted or turned over to Laurel Investment Company in exchange for the capital stock of Western Guaranty Company, or otherwise, or at all. Denies that the assets transferred by the Laurel Investment Company to Western Bond & Mortgage Company were or are substantially worthless, and alleges that said assets were and are of a value equal to or in excess of the value of the whole of the capital stock of Western Guaranty Company; denies that said transfer was made without substantial or adequate consideration to the Western Bond & Mortgage Company; denies that said transfers was made to give control of the Western Bond & Mortgage Company to Johnson, Walling and O'Flynn or any of them; this defendant further alleges that said transaction between Western Bond & Mortgage Company and Laurel Investment Company was authorized by the Boards of Directors of both said corporations, and that the same was later ratified and approved at the annual meeting of the stockholders of Western Bond & Mortgage Company.

VI.

For answer to Paragraph VI of the bill of complaint this defendant denies each and every allegation therein, and denies that he controlled Western Bond & Mortgage Company for a period of five years prior to the commencement of this suit, or for any period; denies that he managed or manipulated the business and affairs of said corporation in any way, and al-

leges that said corporation was managed and controlled during all of said times by its Board of Directors.

Denies that he imposed or caused to be imposed any losses upon Western Bond & Mortgage Company; denies that he shifted to it many or any questions or worthless securities in exchange for valuable properties and securities taken over by him, or that he shifted any questionable or worthless securities or any securities at all to said corporation in exchange for assets of said corporation taken over by him, either through any other corporation or otherwise.

Denies that he either directly or through any other corporation, or at all collected large sums or any sums as commissions upon loans made of the funds of the Western Bond & Mortgage Company, or large or any commissions upon insurance policies issued in connection with the Western Bond & Mortgage Company's loans, or that he ever took any mortgage in the name of the Western Bond & Mortgage Company in excess of the amount loaned or that he directly or indirectly ever converted any part of any loan made by said corporation; denies that he ever directly or indirectly collected or used any commissions or charges in connection with the purchase and disposition of automobile paper with the funds of Western Bond & Mortgage Company, or at all; denies that he at any time or ever substituted any securities of little or no value owned by him or any

corporation in which he was interested for securities of greater value owned by Western Bond & Mortgage Company; denies that he ever, directly or indirectly, transferred any questionable, doubtful or worthless assets to Western Bond & Mortgage Company in exchange for assets of greater value.

Denies that plaintiff has been informed by any person that any of the accusations against the said Farrington contained in Paragraph VI of the bill of complaint are true, and denies that plaintiff believes all or any of said charges to be true; and alleges that this suit was instigated by persons other than plaintiff which persons had previously attempted unsuccessfully by threats, intimidation and coercion to force this defendant to purchase their holdings of stock of Western Bond & Mortgage Company.

VII.

* * * * *

Denies that Keystone Finance Company was organized to take title to lands in Crook County, Oregon, or that said corporation was organized at all by him; admits that Keystone Finance Company did take title to lands in Crook County and did execute and deliver to the Western Bond & Mortgage Company two mortgages totaling \$150,000.00 and that said mortgages were up to December 20, 1930 deposited as a part of the security for outstanding installment bonds; denies that the lands covered by said mortgages are worth not to exceed \$70,000.00, and

alleges that all of the capital stock of Keystone Finance Company has at all times been owned by Western Bond & Mortgage Company, and that the lands covered by said mortgages were at the time said mortgages were taken and are now of a value substantially in excess of the total of said mortgages.

* * * * *

IX.

For answer to Paragraph IX of the bill of complaint, this defendant denies that defendants O'Flynn, Johnson and Walling, or any one or more of them, ever came into or have been, or are in control of Western Bond & Mortgage Company; this defendant admits that at the time defendant Laurel Investment Company and Farrington sold their stock in the Western Bond & Mortgage Company to Massachusetts Mortgage Company the mortgages and securities now on deposit with Lawyers Title & Trust Company were on deposit with Portland Trust & Savings Bank, and that at some time after December 20, 1930 said mortgages and securities were transferred to Lawyers Title & Trust Company; denies that Lawyers Title & Trust Company has no financial responsibility or property of substantial value; alleges he is without knowledge as to the purpose of such transfer, but on information and belief alleges said transfer was made without any purpose of looting the said mortgages and securities; admits that the trust agreement under which said mortgages and securities were deposited with Portland Trust & Savings Bank and later with

Lawyers Title & Trust Company permits Western Bond & Mortgage Company to make substitutions of mortgages and securities; denies each and every other allegation of said paragraph.

X.

* * * * *

This defendant admits that Western Bond & Mortgage Company carries on its books at a value of \$321,500.00 fifty shares of the capital stock of Central Realty Company, being all of the capital stock of said corporation; denies that said stock is of little or no value; alleges that Central Realty Company is the owner of large assets, but this defendant is without knowledge as to the exact value thereof.

This defendant admits that Western Bond & Mortgage Company carries on its books at the sum of \$100,000.00 one hundred shares of the capital stock of Lake Lucerne, a Washington corporation, being all of the capital stock of said corporation; denies said stock has no substantial value, and on information and belief alleges it is worth the sum of \$100,000.00.

* * * * *

XI.

For answer to Paragraph XI, this defendant admits that there are certain livestock loans carried on the books of the Western Bond & Mortgage Company, and that some of the same may be uncollectible.

This defendant denies that the miscellaneous notes in the total amount of \$154,204.00 are worthless or

uncollectible, and denies specifically that the said Massachusetts Mortgage Company note of \$87,000.00, the note of W. I. Burwell, and the note of Ljungdahl Products Corporation, or any of them, are uncollectible.

This defendant believes and therefore alleges that all of said notes are worth their full face value, and further alleges that the said Massachusetts Mortgage Company note has been paid in the manner agreed upon, that payment thereof was made by a note of Northwest Hotels and Realty Corporation, a Washington corporation, for the sum of \$87,000.00 which note is secured by a mortgage upon a very valuable parcel of real property in Tacoma, Washington.

XII.

For answer to Paragraph XII this defendant admits that among the assets of Western Bond & Mortgage Company are carried livestock open accounts in the sum of \$67,096.53, but deny that all of the same are uncollectible, and specifically denies that said accounts have been kept and maintained for the purpose of deceiving stockholders and creditors of said corporation and concealing the true condition thereof.

This defendant believes and therefore alleges that upon return to normal conditions the greater part of said accounts will be paid.

XIII.

For answer to Paragraph XIII this defendant denies that Western Bond & Mortgage Company is

now or has been at all insolvent; denies that defendants Johnson, O'Flynn and Walling control a majority of the voting stock of said corporation, or that they own or control any substantial amount thereof; denies that defendant Ben Walling is a stockholder, director or officer of said corporation, or ever has been; denies that E. J. Boxer is a director of said corporation; denies that the defendants Laurel Investment Company and C. H. Farrington, or either of them, ever entered into any agreement, concert or conspiracy of any nature whatsoever, with defendants Johnson, O'Flynn and Walling, or either or any of them.

* * * * *

WHEREFORE, this defendant prays that this suit be dismissed as to him and that he have and recover from plaintiff his costs and disbursements herein, and have such other relief as may to the court seem equitable.

(s) WILSON & REILLY,
Attorneys for Defendant
C. H. Farrington.

UNITED STATES OF AMERICA)
) SS
DISTRICT OF OREGON)

C. H. FARRINGTON, being first duly sworn, on his oath, depose and says: that he is one of the defendants in the within action, that he has read the foregoing Answer, knows the contents thereof, and that the same is true.

(s) C. H. FARRINGTON.

Subscribed and sworn to before me this 1 day of
April, 1931.

(s) JOHN F. REILLY,

Notary Public for Oregon.

(SEAL)

My commission expires: Nov. 29, 1934.

DEFENDANTS' EXHIBIT 69
MEMORANDUM OPPOSING DISMISSAL
OF BROCKIE SUIT

IN THE DISTRICT COURT OF THE UNITED STATES
 FOR THE DISTRICT OF OREGON

John Brockie,

Plaintiff,

vs.

Western Bond and Mortgage Company, a corporation; C. H. Farrington; E. F. O'Flynn; W. E. Johnson; Ben Walling; Laurel Investment Company, a corporation; Western Guaranty Co., a corporation; Beacon Investment Co.

Defendants,

Massachusetts Mortgage Company, a corporation
 Intervenor,

Town of Halfway, a Municipal corporation of the State of Oregon; Town of Richland, a Municipal corporation of the State of Oregon; Carl M. Little; C. H. Pape; Edward C. Pape; H. L. Temple; Frank P. Ofner; Clyde Graham; Gordon Ramstead; John J. Egr and Larry M. Wooton,

Intervenors.

MEMORANDUM OF DEFENDANTS LAUREL INVESTMENT COMPANY, WESTERN GUARANTY COMPANY and C. H. FARRINGTON OPPOSING MOTION OF PLAINTIFF TO DISMISS.

Several months ago the plaintiff instituted this suit and in presenting it to the Court represented that it was an emergency matter involving interest that not only justified but required the appointment of a Receiver pendente lite to protect the assets and re-

sources of the Western Bond & Mortgage Company and asserting the urgent necessity for the protection of the assets of that corporation.

The bill charges a conspiracy between the present owners of that corporation and C. H. Farrington, its former President, and charges a dissipation of the assets of the mortgage company by Farrington, and a conspiracy between the parties at present controlling the corporation, and Farrington. The Court denied the application for a Receiver and invited an application by the plaintiff for a restraining order to protect the existing assets and particularly the securities lodged with the trustee.

The Court called attention to the congested condition of its docket and stated that prompt hearing and action in the matter would require reference of the cause to a master and stated that unless objection thereto be made it would appoint the standing master of the court to hear and report upon the cause. At that time the cause was not at issue and of course it could not be referred until issue was joined.

The case was promptly put at issue, and thereupon the plaintiff filed his written motion for reference of same to a master. The plaintiff objecting to the appointment of the standing master as not being acceptable to all parties represented by counsel for plaintiff, the Court appointed Homer D. Angell, Esquire, as master, conditioned no objection be interposed by any of the interested parties.

All interested parties were consulted and the appointment of Mr. Angell was concurred in without opposition or objection by any of the parties, and the cause referred to him for full hearing and report on the facts and law.

In view of the fact that the master was appointed upon the motion of the plaintiff with the concurrence of all other parties this amounted to an arbitration before an agreed arbitrator pursuant to special rule of the court.

Had the parties failed to concur in or challenge the reference thus suggested by the court "a showing that some exceptional condition requires it" would have been necessary under Equity Rule 59. See also *Simpkins Federal Practice*, Pages 834 and 835.

Thus, irrespective of whether the reference to a master originated with the Court or with the parties involved in the litigation, it was in fact a consent reference accomplished by the concurrence of all interested parties.

Having been made by special rule of court as distinguished from the general rules by which the practice of the court is covered, the submission thereupon became and was irrevocable.

In making this concluding statement we do not wish to be understood as waiving our contention that upon the equity rules, the record in this case and the authorities cited, plaintiff's motion to dismiss without

prejudice must be denied.

Respectfully submitted,

JOHN F. REILLY,

ROY F. SHIELDS and

ARTHUR C. SPENCER,

Attorneys for the three De-
fendants first herein named.

Dated July 30th, 1931.

DEFENDANTS' EXHIBIT 71

IN THE DISTRICT COURT OF THE UNITED
STATES FOR THE DISTRICT OF OREGON

JOHN BROCKIE,

Plaintiff,

vs.

WESTERN BOND & MORT-)
GAGE COMPANY, a corporation,)
C. H. FARRINGTON, E. F.)
O'FLYNN, W. E. JOHNSON,)
BEN WALLING, LAUREL IN-)
VESTMENT COMPANY, a cor-)
poration, WESTERN GUARAN-)
TY COMPANY, a corporation,)
BEACON INVESTMENT COM-)
PANY, a corporation,)

Defendants.)

No. E 9189

ORDER
DISMISSING
SUIT

This matter is now before the court upon motion of the plaintiff for a dismissal, without prejudice, and it appearing that said motion should be granted, it is therefore

ORDERED that the complaint herein and this suit be and they are hereby dismissed, without prejudice, upon the payment by plaintiff of the statutory costs of defendants and witnesses, including the costs of reference and such reasonable fees to the Master in Chancery as may be determined by the court.

Dated at Portland, Oregon, this 18th day of August, 1931.

(s) JOHN H. McNARY,
Judge.

DEFENDANTS' EXHIBIT 75

(Article Appearing in Oregon Journal—July 14, 1931,

Pg. 9, Column 1)

Nine bondholders and stockholders of the Western Bond & Mortgage company today filed suit in circuit court seeking appointment of a receiver on the charge that its assets have been misappropriated and that it is insolvent.

The plaintiffs are H. C. Thompson, M. V. Newton, N. S. Rogers, E. J. Reid, Mathew Reid, Mrs. Charles Bockler, Mary Hawley Kemp, E. F. Baird and J. P. Tamiesie. Defendants named in the complaint are the Western Bond & Mortgage company, E. F. O'Flynn, W. E. Johnson and Ben Walling, directors, and the Lawyers Title & Trust company.

The suit followed the filing of a suit Monday by the Western Bond & Mortgage company seeking \$250,000 damages from the Universal Bond & Mortgage corporation, Guy LaFollette, George A. Nichols, George M. McDowell, Frank Bramwell, Harry Swart and F. B. Pratt on the charge that the Universal corporation, and its president, LaFollette, had formed a conspiracy to wreck the Western company by soliciting bondholders to file suits.

The Western company has been engaged in business for more than 15 years, according to the complaint filed by the nine plaintiffs. The complaint sets out that the company has outstanding upwards of \$800,000 in installment bonds, \$12,000 in participation certificates in real estate mortgages, \$51,000 in mortgage certificates, and \$400,000 in preferred stock.

For many years prior to December 20, 1930, it is alleged C. H. Farrington owned and controlled the majority of the common stock of the company, which has the voting power. It is charged

that Farrington completely dominated its affairs and for the purpose of juggling the assets and fraudulently concealing the true facts concerning the company's assets and liabilities, caused to be organized a number of other corporations, the stock in all of which was owned by Farrington and controlled by him through dummies and employes of his and of the Western company. These corporations were the Laurel Investment company, Western Guaranty company, Beacon Investment company, Keystone Finance company, Central Realty company, Livestock Loan company, National Investment company, Grande Ronde Livestock company and others.

The plaintiffs charge that O'Flynn, Johnson and Walling entered into a conspiracy with Farrington to engage in a series of fraudulent transactions through which Farrington directly and through his own controlled corporations should abstract and appropriate property and assets of the Western in a sum upwards of \$300,000, and that O'Flynn, Johnson and Walling should obtain control of the majority of common stock of the Western Company and thus control of its affairs.

In addition to appointment of a receiver, the court is asked to enjoin the defendants from disposing of any of the funds.

DEFENDANTS' EXHIBIT 76

Article Appearing in the Oregonian—July 15, 1931,
Pg. 13, Column 1)

Appointment of a receiver for the Western Bond & Mortgage company was asked in a suit filed in circuit court here yesterday by nine holders of installment bonds and preferred stock issued by the company. Charges that the concern is insolvent and that assets have been juggled and misappropriated were made in the complaint.

Monday the Western Bond & Mortgage company filed suit against the Universal Bond & Mortgage company seeking \$250,000 damages, and charging that the Universal company had conspired to wreck the Western company and had persuaded bond and stockholders to seek a receivership.

The plaintiffs in yesterday's action are H. C. Thompson, M. V. Newton, N. S. Rogers, E. J. Reid, Mathew Reid, Mrs. Charles Bockler, Mary Hawley Kemp, E. F. Baird, and J. P. Tamaiesie. The defendants are the Western Bond & Mortgage company, E. F. O'Flynn, W. E. Johnson, Ben Walling and the Lawyers Title & Trust company.

For 15 years, the complaint said, the Western Bond & Mortgage company has been selling installment bonds, which are in effect promissory notes of the concern. Outstanding at the present time is upwards of \$800,000 in such bonds, \$12,000 in participating certificates, \$51,000 in mortgage certificates and \$400,000 in preferred stock, the plaintiffs alleged.

For many years C. H. Farrington owned and controlled a majority of the common capital stock, the only stock having any voting power, and until December 20, 1930, was president and managing director of the company, they set out.

Prior to December 20, 1930, it is charged, the

defendants, O'Flynn, Johnson and Walling entered into a conspiracy with Farrington to engage in a series of fraudulent transactions through which Farrington directly and through a number of corporations controlled by him, particularly the Laurel Investment Company, should appropriate property and assets of the Western company worth about \$300,000. The transactions by which Farrington obtained the assets of the company were in legal effect the unlawful payment of dividends from the capital assets of the concern on common stock of the corporation, while assets were not available to liquidate current obligations, the complaint said.

Subsidiary Concerns Formed.

Such transfers of capital stock were made, it is alleged, that about December 20 O'Flynn, Johnson and Walling acquired control of the company, by delivering to Farrington liquid and marketable assets of the concern valued at about \$300,000. Farrington resigned as president and V. Lyle McCroskey as secretary, and Johnson became president and O'Flynn secretary-treasurer, it was said.

For the purpose of juggling the assets and fraudulently concealing the true facts concerning the company, Farrington for a number of years, and particularly in the last two years, caused to be organized a number of corporations of which he owned the controlling interest, the complaint said. Among them were the Laurel Investment company, the Western Guaranty company, the Beacon Investment Company, the Keystone Finance company, the Central Realty company, the Livestock Loan company, the National Investment company, the Oak Service corporation, the Warm River Livestock company, and the Grande Ronde Livestock company.

Assets Value Questioned.

Also to conceal from the bondholders and preferred stockholders, it was charged, O'Flynn, Johnson and Walling, and before them, Farrington

ton and his employes, deliberately juggled the financial statements of the corporation to show book value assets to be greatly in excess of any real value. Stocks of various corporations were shown on the books to be worth more than \$300,000 in excess of actual value. Similarly, livestock notes were carried and mortgages on real estate, pledged with the Lawyers' Title & Trust company in the amount of approximately \$600,000, were in many cases secured by property having no market value equal to the face of the mortgage, it was claimed. Mortgages, valued in excess of \$92,000, have been pledged with the Boise City National bank, the complaint stated.

The corporation is wholly insolvent, it was charged, and there is due from Farrington a sum in excess of \$250,000 for which suit should be brought.

The complaint asked that a receiver be appointed with authority to prosecute all necessary suits to recover the assets for the corporation. An order enjoining the Western company and the other defendants from disposing of any funds or property and restraining the Lawyers' Title & Trust company from transferring or delivering any of the mortgages or securities to the Western company also was asked.

DEFENDANTS' EXHIBIT 78

(Article Appearing in Oregon Journal—July 19, 1934,
Page 19)

Salem, July 19.—Charges of irregularity by officers of the Western Bond & Mortgage company of Portland, as contained in the audit report of the state corporation commissioner's office, were submitted today to Attorney General Van Winkle and the district attorney of Multnomah county by Charles H. Carey, corporation commissioner, for full investigation and recommendations for indictment and recovery of property in the interests of investors.

The report included indication of fraud in mortgage transactions with affiliated companies, and "disregard for the actual liability in withdrawal of securities," as well as the statement that the firm is "hopelessly insolvent at the present time."

Officials mentioned in the audit report against whom criticism was made include E. F. O'Flynn of Seattle, president and in control of the company; W. E. Johnson, former president from Montesano, who now is reported in Canada, and E. E. Edmunds, who was declared "used as a tool to enable the officers to get cash."

The company, capitalized at \$1,000,000, was organized April 20, 1911, as an Oregon corporation, and operated chiefly in Portland and the Puget Sound country in Washington. The firm sold securities between February, 1923, and January, 1926, all sold under a trust agreement. Since that time no application to sell has been made under the blue sky law, but the investigation of the company was ordered by Carey last March as a result of complaints and questions received at his office from bondholders.

The audit report, filed with Carey by Charles A. Goodwin, auditor for the corporation commis-

sioner, pointed out that installment bonds now payable have a matured value of \$28,845, and the cash on hand was only \$62.42. He declared these payments cannot be made in cash.

The audit further points out several specific instances of alleged irregular transactions. It declared the disbursement of \$5142 to O'Flynn "appears irregular," and that specific mortgages unlawfully converted totaling \$68,012, were "defrauding the bondholders."

Another specific charge was made in the reputed mishandling of \$20,000 by O'Flynn, Edmunds and Johnson and an additional \$11,000 disbursement to O'Flynn through means of affiliated corporations.

During the present time, although the firm was declared "hopelessly insolvent", the officers were collecting about \$200 a month from installment bondholders which the officers are drawing on, the report stated. The total amount of the alleged improper transactions could not be computed in the preliminary investigation, Goodwin stated.

C. H. Farrington of Portland was president of the firm when it was organized. He was succeeded by Johnson, who was replaced as head by O'Flynn in 1932. Miss E. E. Gallagher is vice president and Miss L. Thibodeaux is an employe of the firm, both declared used as "dummies in alleged affiliated corporations."

The matter of the criminal prosecution was referred to District Attorney Lotus L. Langley of Multnomah county, while the proposal to protect the interests of investors in the attempted recovery of these mortgages "irregularly transferred" was referred to the attorney general. The corporation department declared this was the first time the attempt to recover property for investors had been referred to the attorney general.

DEFENDANTS' EXHIBIT 79

(Article Appearing in the Oregonian, Friday, July 20,
1934, Page 5)

SALEM, OR. July 19 (Special) — Investigation of the affairs of the Western Bond & Mortgage company of Portland today was turned over to the attorney-general of Oregon and the district attorney of Multnomah county by the state corporation commissioner because of evidences of irregularities found in the audit report of the commission.

Charges of embezzlement by the officers of the company were contained in the audit just completed by Charles A. Goodwin of the corporation department and submitted to Charles H. Carey, commissioner. Carey referred the matter immediately to Attorney-General I. H. Van Winkle for redress in the interests of the bondholders and to the district attorney of Multnomah county for criminal prosecution.

Three Officials Named.

The audit report included indications of fraud in mortgage transactions with affiliated companies and "disregard for the actual liability in withdrawals of securities," as well as the statement that the firm is "hopelessly insolvent at the present time."

Officials mentioned in the audit report against whom criticism was made include E. F. O'Flynn of Seattle, president and in control of the company; W. E. Johnson, ex-president from Montezano, who now is reported in Canada, and E. E. Edmunds, who was declared "used as a tool to enable the officers to obtain cash."

The company, capitalized at \$1,000,000, was organized April 20, 1911, as an Oregon corporation, and has been operating chiefly in Portland and the Puget sound country in Washington. The firm sold securities between February, 1923, and

January, 1926, all under a trust agreement. Since that time no application to sell has been made under the blue sky law, but the investigation of the company was ordered by Carey last March as a result of complaints and questions received at his office from bondholders.

The audit report pointed out that installment bonds now payable have a matured value of \$28,845, and the cash on hand was only \$62.42. He declared these "payments cannot be made in cash."

The audit further points out several specific instances of alleged irregular transactions. It declared that disbursement of \$5142 to O'Flynn "appears irregular" and that specific mortgages unlawfully converted totaling \$68,012 was "defrauding the bondholders."

Another specific charge was made in the "embezzlement of \$20,000 by O'Flynn, Edmunds and Johnson" and an additional \$11,000 disbursement to O'Flynn through means of affiliated corporations.

During the present time, although the firm was declared "hopelessly insolvent" the officers were collecting about \$200 a month from installment bonds which the officers were drawing upon. The total amount of the embezzlement, or the improper transactions could not be computed in the preliminary investigation, Goodwin stated.

C. H. Farrington of Portland was president of the firm when it was organized. He was succeeded by Johnson, who was replaced as head by O'Flynn in 1932. Miss E. E. Gallagher is vice-president and Miss L. Thibodeaux is an employe of the firm, both declared used as "dummies in alleged affiliated corporations."

Attorney-General Gets Case.

The matter of the criminal prosecution was referred to District Attorney Lotus L. Langley of Multnomah county, while the proposal to protect the interests of investors in the attempted recovery of these mortgages "irregularly trans-

ferred" was referred to the attorney-general.

The corporation department declared this was the first time the attempt to recover property for the investors was referred to the attorney-general.

In the letter of transmittal of the audit on the Western Bond & Mortgage company to the district attorney of Multnomah county, the corporation commissioner stated "you will find there are several instances where the criminal statutes have been violated and I hereby request you to prosecute those who appear guilty."

In the letter to the attorney-general Carey requested that he "institute such civil proceedings as you consider appropriate for the protection of the interest of the investors of that corporation."

Farrington, who was the first president of the company, now resides in Portland. The statute of limitations prevents criminal action, if any is found, against him, the corporation department declared, but civil action for the recovery of property could be brought against him in the event it is proven illegal transactions were made during his term of office.

DEFENDANTS' EXHIBIT 80

(Article Appearing in Oregon Journal, Saturday,
Aug. 4, 1934, Pg. 8, Column 8)

Salem, Aug. 4. Appointment of a receiver for the Western Bond & Mortgage Co. was requested Thursday by Attorney General I. H. Van Winkle. The request was made in a petition filed with the United States district court in Portland.

August 13 was set as the date for a hearing on the petition, filed following a request by Charles H. Carey, corporation commissioner, that a thorough investigation into the affairs of the company be made by the district attorney of Multnomah county and the attorney general.

The petition alleges that the company is insolvent and is wrongfully withdrawing securities deposited with the trustee in bankruptcy for the purpose of protecting outstanding bonds. These securities, it is alleged, are entirely inadequate to protect bondholders.

The petition sets out that there are 758 owners of bonds of the company of whom are residents of Oregon and owners of bonds valued at \$389,403.68.

Intervention by the state was based on a recent audit by Charles A. Goodwin, deputy corporation commissioner, in which it was shown that present liabilities of the company on outstanding bonds are not less than \$613,000 and that securities of the company are not nearly sufficient to pay bonds now matured.

(Article Appearing in Oregon Journal, Monday, Aug.
13, 1934, Pg. 3, Column 2)

Argument on an order to show cause why a receiver should not be appointed for the Western Bond & Mortgage company was opened before

Federal Judge McNary today.

The hearing is on application of I. H. Van Winkle, attorney general for Oregon, and Ralph E. Moody, his assistant. The state corporation commissioner is made a joint applicant with Gottlieb Jossi, William E. Koenig and Louise McClintock, holders of the defendant's bonds.

Following argument, the court will either take the matter under advisement, appoint a receiver or deny the application. A similar application filed two years ago resulted in denial of a receiver for the company.

DEFENDANTS' EXHIBIT 81

(Article Appearing in Oregon Journal, Aug. 14, 1934,
Pg. 18, Column 1)

George M. McBride has been named by Federal Judge McNary as receiver for the Western Bond & Mortgage company, Portland. The appointment was made on petition of I. H. Van Winkle, attorney general for Oregon, and his assistant, Ralph E. Moody. Joint petitioners were the state corporation commissioner, Gottlieb Jossi, William E. Koenig and Louise McClintock.

The appointment was made following hearing of a petition in intervention which has been pending since November 25, 1931, and the receiver is to serve pending adjudication of the case or its dismissal or appointment of a trustee. The creditors who joined in the matter are seeking to protect interests of stockholders, creditors and investors of the company, according to Moody.

Henry Clay Agnew, Seattle attorney, appeared as counsel for the firm and declared that appointment of a receiver for a corporation is equivalent to condemning a man without trial. He said the company is now being operated for \$200 a month which he declared is cheaper than any receiver could run it.

In making his decision, Judge McNary said he could not see what could hurt the company more than to have a bankruptcy proceeding pending against it for three years.

The attorney general based his petition on the grounds that the company has been transactions preferring certain bondholders; that it has withdrawn securities and substituted securities of less value; that funds of the company have been dissipated and that the corporation commissioner has been refused access to the books.

The petition declares that the total liabilities of the company are in excess of \$718,000 and that the face and book value of all securities deposited is not more than \$657,000.

DEFENDANTS' EXHIBIT 82

(Article Appearing in Oregonian, August 4, 1934,

Pg. 14, Column 4)

SALEM, Or. August 3 (Special). Appointment of a receiver for the Western Bond and Mortgage company was requested by Attorney-General Van Winkle in a petition filed in the United States district court in Portland today. Hearing on the petition was set for Monday, August 13.

The petition followed the action of Charles H. Carey, state corporation commissioner, who recently asked the attorney-general and district attorney of Multnomah county to conduct a thorough investigation of the company's affairs to determine whether there was any criminal or civil liability under the blue sky law. E. F. O'Flynn, is president of the company and E. E. Gallagher is secretary.

Records show that the company filed a petition of bankruptcy on November 25, 1931, and this is still pending in the courts.

The petition sets out that the alleged bankrupt company made application to the state corporation commissioner for a permit to transact business as a dealer in Oregon and to sell installment, coupon and single payment bonds in the amount of \$500,000. This permit was granted on February 27, 1923. Thereafter, on July 25, 1923, another application was filed for permission to sell these bonds in the amount of \$1,000,000. This application also received approval.

The dealers permit subsequently was canceled June 15, 1926, but according to the petition, the company continued to collect its installments. Up to that time, it was alleged that the company had issued and sold these bonds in an amount aggregating \$8,100,000, with total liability on the bonds so sold of \$270,000.

DEFENDANTS' EXHIBIT 83

(Article Appearing in Oregonian, August 14, 1934,
Pg. 4, Column 1)

A receiver for the Western Bond & Mortgage company of Portland was authorized yesterday by Federal Judge McNary following hearing of a petition in intervention filed by I. H. Van Winkle, attorney-general for Oregon, in the involuntary bankruptcy proceeding which has been pending since November 25, 1931. Judge McNary named George M. McBride, attorney, as receiver.

The receiver was appointed pending adjudication of the case, or its dismissal or appointment of a trustee. Creditors joined with the state in the petition of intervention "to protect the interests of the stockholders, creditors and investors of the company." Ralph E. Moody, assistant attorney-general for Oregon, represented the state at the hearing and Henry Clay Agnew, Seattle attorney, appeared as counsel for the Western Bond & Mortgage company.

Expense Declared Low.

"To appoint a receiver for a corporation is equivalent to condemning a man without a trial. The company is being run now at a cost of \$200 a month, which is cheaper than any receiver could run it," stated Mr. Agnew in behalf of the company.

"I do not know what could hurt your company much more than to have a bankruptcy proceeding pending against you for three years," the court replied.

The petition for appointment of a receiver to investigate affairs of the company was made by the attorney-general on the alleged grounds that the company had made transactions preferring certain bondholders, that it had withdrawn securities and substituted securities of less value or no securities at all, that the funds of the company

were being dissipated and that the corporation commissioner had been refused access to the books.

Firm Held Insolvent.

The total amount of liabilities of the Western Bond & Mortgage company for installment, single payment and coupon bonds now outstanding is in excess of \$718,000, according to the attorney-general's petition. "Face and book value of all securities deposited with the trustee does not exceed \$657,000, and is far in excess of any actual value of securities and the Western Bond & Mortgage company is absolutely insolvent," it alleges.

The company is "unable to pay even the \$28,000 due and unpaid on the fully matured bonds issued by it. In some instances where worthless mortgages were substituted by the bankrupt with the trustee for mortgages of value, the property so mortgaged has been since the substitution sold for non-payment of taxes and other public liens, and such substitute mortgages as a security are entirely worthless," the petition charges.

The Western Bond & Mortgage company has not sold a bond since 1930, Mr. Agnew stated. The actual liability of the company is \$450,000. The trust agreement provides for substitution of security, he declared, and only three substitutions were made after the bankruptcy proceeding was filed. All were made longer ago than 18 months, he stated. The corporation commissioner has had access to the books, he said.

DEFENDANTS' EXHIBIT 84

(Article Appearing in Oregonian, August 19, 1931,
Page 18, Colume 3)

Suit brought by John Brockie against the Western Bond & Mortgage company, C. H. Farrington, E. F. O'Flynn, Ben Walling, Laurel Investment company, Western Guaranty & Mortgage company and Beacon Investment company for an accounting and receivership was dismissed in federal district court yesterday by Judge McNary on a petition by the plaintiff.

Brockie, a stockholder, alleged that Farrington, as principal owner, had juggled the financial affairs of the group to further his own interests at the expense of stockholders.

DEFENDANTS' EXHIBIT 85

**(Article Appearing in Oregon Journal, Sept. 10, 1931,
Pg. 22, Column 7)**

An accounting of assets and appointment of a receiver for Western Bond & Mortgage company are sought in an action filed Wednesday in circuit court by Edward Pape, C. H. Pape, Frank P. Ofner, Clyde Graham, Gordon Ramstead, H. L. Temple, John J. Egr, Larry M. Wooton, Carl M. Little, Helen P. Baker, Herman Lindseth, Ralph Hibbs, R. A. Chisholm, Lee Martin, Jung Sing, Duck Wong and Roy H. Mills.

The plaintiffs asked that the receiver take charge of all assets, moneys and deposits with the Lawyers Title & Trust company, which are stated to total about \$300,000.

The Lawyers Title & Trust company and W. E. Johnson, E. F. O'Flynn and E. J. Boxer, directors of the bond company, are co-defendants with the Western Bond & Mortgage company.

DEFENDANTS' EXHIBIT 86

IN THE CIRCUIT COURT OF THE STATE OF
OREGON FOR MULTNOMAH COUNTY

H. C. THOMPSON, et al,	)	No. 101-174
)	
Plaintiffs,	)	AMENDED
	)	COMPLAINT
vs.)	
	)	Office of County
WESTERN BOND & MORT-	)	Clerk
GAGE COMPANY, et al.,	)	Multnomah County,
	)	Oregon
Defendants.	)	Filed
	)	November 21, 1931

Comes now the plaintiffs and file this as and for their amended complaint herein, and for cause of suit against the defendants, allege:

* * * * *

That during the last many years one C. H. Farrington has owned or controlled a majority of the common capital stock of said corporation, which said stock is the only stock having any voting power attached thereto as an incident of ownership and that the said C. H. Farrington has during all of said time and up to the 20th day of December, 1930, been the President, Managing Director and the head of said corporation, and through the common capital stock owned by himself and his employees, has completely dominated and controlled the affairs of said corporation; that for the purpose of juggling the assets of, and fraudulently concealing from the knowledge of

the stockholders and holders of the securities of said corporation and from the holders of its preferred stock, the true facts concerning its various assets and liabilities, the said C. H. Farrington has during the last several years, and particularly during the last three years, caused to be organized divers and sundry corporations, the stock in all of which corporations was owned by the said Farrington and/or controlled by him through dummies and through employees of his and of the Western Bond & Mortgage Company, which employees in the main have had and now have no financial standing nor any ability to respond in damages or to pay for liabilities incurred by said corporations wrongfully and in its behalf and for which purpose the plaintiffs allege that the said Farrington caused to be organized the following corporations, viz:

Laurel Investment Company
 Western Guaranty Company
 Beacon Investment Company
 Keystone Finance Company
 Central Realty Company of Oregon
 Central Realty Company of Idaho
 Livestock Loan Company
 National Investment Company
 Oak Service Corporation
 Warm River Livestock Company
 Grande Ronde Livestock Company
 Oaklev Realty Company
 Bear Valley Livestock Company
 Russell Land & Livestock Company
 Sawtooth Livestock Company

and others of like kind and character, the officers and directors of which were employees of the said Farr-

ington and/or Western Bond & Mortgage Company, defendant, and had no financial interest in said corporations but acted as officers and directors only by way of dummies at the instance and request of the said Farrington and said Western Bond & Mortgage Company;

VII.

That for more than five years last past the said C. H. Farrington, and the said Laurel Investment Company, owned, dominated and controlled by him as aforesaid, owned and controlled a majority of the outstanding common capital stock which had the exclusive voting power of the Western Bond & Mortgage Company, defendant corporation, and that through said ownership the said C. H. Farrington, up to about December 20, 1930, entirely controlled, dominated and directed the affairs and transactions of the said Western Bond & Mortgage Company; that on or about the 20th day of December, 1930, the defendant, Farrington, personally and by and through owned and controlled corporations hereinbefore referred to, and particularly through Laurel Investment Company, entered into a transfer of corporate stocks, whereby Massachusetts Mortgage Company, having its principal office and place of business in Seattle, Washington, secured the controlling interest in the common capital voting stock of Western Bond & Mortgage Company, and one W. E. Johnson was made President of Western Bond & Mortgage Company, and one E. F. O'Flynn was made secretary of Western

Bond & Mortgage Company; that the plaintiffs are unable to ascertain the names of other directors or stockholders in said Western Bond & Mortgage Company as of the date of the filing of this amended complaint, for the reason that although demand has been made upon W. E. Johnson, president of said corporation, for such information, the corporate records and minute books of said corporation, Western Bond & Mortgage Company, are kept in Seattle, Washington, and the plaintiffs have been denied access thereto, and on plaintiffs' demand, the said Johnson, President of said Western Bond & Mortgage Company, has refused to produce said records, notwithstanding the order of this court heretofore entered, directing the defendants to give an inspection of all books and document of defendants to plaintiffs; but each of said named directors are interested in and are officers of Massachusetts Mortgage Company, the principal stockholders of Western Bond & Mortgage Company;

VIII.

That the said E. F. O'Flynn is the President of Massachusetts Mortgage Company and is in fact the managing head of and dominates and controls the Western Bond & Mortgage Company;

IX.

That in truth and in fact the transaction through which the defendants, Johnson and O'Flynn, through the Massachusetts Mortgage Company, acquired said common voting stock in said Western Bond & Mort-

gage Company, were by the unlawful and fraudulent abstraction of the property and assets of the Western Bond & Mortgage Company, in the sum of upwards of \$300,000.00, and so that the said defendants O'Flynn and Johnson, through the Massachusetts Mortgage Company, should obtain control of the majority of the common capital stock of the Western Bond & Mortgage Company and thus control all the affairs of the said defendant, Western Bond & Mortgage Company, a corporation, and on or about December 20, 1930, the said defendants did so acquire control, not by virtue of payments made or delivery of any assets then owned by the said O'Flynn, Johnson, and/or Massachusetts Mortgage Company, but rather by delivery to the said Farrington and Laurel Investment Company of the liquid, more valuable and marketable assets of the Western Bond & Mortgage Company;

* * * * *

XI.

That for the purpose of concealing from the bondholders and preferred stockholders of said corporation its true financial condition, the defendants O'Flynn and Johnson, and prior to the time they were elected directors of said corporation, the said Farrington by himself and by and through his employees, dominated and controlled by him, have with intent to deceive the bondholders and preferred stockholders, so juggled the financial statements of said corporation and have so juggled the mortgages deposited

with the trustee to secure the said bond holders, so as to show book value assets in said mortgages and also in the general assets of said corporation, to be greatly in excess of any real value of said assets so owned and controlled by said corporation and so as to deceive and defraud the said bondholders in relation to securities pledged with the said trustee; that in this connection plaintiffs allege that many of the mortgages pretended to be lodged with the said trustee are not in truth and in fact mortgages but that the mortgages so lodged with the trustee have been foreclosed; that the said defendants have for the purpose of deceiving the bondholders as to the real securities held by said trustee for their account, made fictitious and false credits of interest alleged to have been paid on said mortgages so as to give the said mortgages an apparent standing and real value when in truth and in fact the interest has been defaulted on said mortgages and has not been paid by the makers of said mortgages and said makers have only received credit for the payment of interest by false and fraudulent book entries made by the Western Bond & Mortgage Company; that there is recited in the next succeeding paragraphs instances of such dealing.

* * * * *

XIII.

That there is carried in said trust account mortgages executed by Keystone Finance Company, in the principal sum of \$150,000.00, secured by lands in

Crook County, Oregon, known and commonly called the Russell Ranch, concerning which the appraisals carried in Western Bond & Mortgage Company's files, show the said land to have been valued by the former owner, Russell, in 1926, at \$120,000.00, and on which the highest appraised value disclosed by the defendant's own files, is \$150,000.00; that interest is badly in arrears on said mortgage, and in truth and in fact said mortgage was originally for \$60,000.00; that the original maker of said mortgage, being unable to pay the taxes against said premises, or the interest on said mortgage, deeded said property over to Keystone Finance Company, a subsidiary of Western Bond & Mortgage Company, and controlled by it, which in turn placed two mortgages on said premises, aggregating the \$150,000.00 aforementioned, and lodged the same with the trustee for the security of bondholders;

* * * * *

XXIV.

That there is also carried, as an asset of said corporation, the stock of Central Realty Company, at \$321,500.00; that the said Central Realty Company is a subsidiary of Western Bond & Mortgage Company and that its officers and directors are the same as the officers and directors of the Western Bond & Mortgage Company and/or employees of said company, who have no financial responsibility, and that Central Realty Company has no other assets other than corporate stocks in Keystone Finance Company, Keystone Investment Company and other worthless sub-

sidiary companies of Western Bond & Mortgage Company, and lands hereinbefore referred to, which are already mortgages to Western Bond & Mortgage Company for more than 200% of the actual value of its holdings;

* * * * *

DEFENDANTS' EXHIBIT 87

IN THE CIRCUIT COURT OF THE STATE OF
OREGON FOR MULTNOMAH COUNTY

H. C. THOMPSON, et al,	)	No. 101-174
)	
Plaintiffs,	)	ORDER
)	
vs.	)	(Stamped) October
	)	6, 1931
WESTERN BOND & MORT-	)	(Stamp is blurred for
GAGE COMPANY, et al.,	)	balance but is usual
	)	Multnomah County
Defendants.	)	filing stamp)

This matter came on for hearing before the undersigned, Judge of the above entitled court, on Thursday, the first day of October, 1931, on motion of plaintiffs for an order requiring the defendants, Western Bond & Mortgage Company and Lawyers' Title & Trust Company, to give plaintiffs an inspection and permission to take a copy of all books, documents or papers in their possession or under their control containing evidence of matters relating to the merits of the above styled suit. The court having heard the arguments of counsel, it is

ORDERED that the said motion be, and the same is hereby allowed and the said defendants, and each of them, are hereby ordered and directed to permit plaintiffs to make an inspection of all books, documents and papers in their or either of their possession or under their control, relating to the assets and lia-

bilities of the said defendant, Western Bond & Mortgage Company, and relating to the securities held by Lawyers' Title & Trust Company, to secure the bonds issued by Western Bond & Mortgage Company and held by plaintiffs, such examination to be made during reasonable business hours and with as little inconvenience as possible to the defendants, the plaintiffs in said examination and inspection to be represented by their attorney, Allen H. McCurtain, or a competent accountant of his selection, and the information so obtained to be used by the plaintiffs only in the prosecution of the above styled suit.

DATED at Portland, Oregon, this.....day of October, 1931.

(S) W. A. ECKWALL,
Judge.

DEFENDANTS' EXHIBIT 88

IN THE CIRCUIT COURT OF THE STATE OF
OREGON FOR MULTNOMAH COUNTY

H. C. THOMPSON, et al,	)	No. 101-174
)	
Plaintiffs,	)	AFFIDAVIT
)	
vs.	)	Office of County
	)	Clerk
WESTERN BOND & MORT-	)	Multnomah County
GAGE COMPANY, et al.,	)	Filed
	)	November 21, 1931
Defendants.)	

STATE OF OREGON)	
	)	SS:
COUNTY OF MULTNOMAH)	

I, Allen H. McCurtain, being first duly sworn, say that I am the attorney for the plaintiffs in the above entitled suit; that subsequent to the date on which the above styled court made an order permitting the plaintiffs to examine the books and accounts of the defendant, I employed one, Carlson, a competent auditor, to examine the books, accounts and records of the defendant, Western Bond & Mortgage Company and Lawyers Title & Trust Company; that the said auditor has submitted to me a report containing information found in the books and accounts of the defendant, Western Bond & Mortgage Company, from which I am of the opinion it is absolutely necessary for the preservation of the assets of the said defendant that a temporary receiver be appointed to take

charge of the assets of said corporation, and that the said defendant be restrained from further disposing of or encumbering such assets, and as attorney for plaintiff I have prepared amended complaint, which has been filed herein; that I believe the facts stated in said amended complaint are true and that it is in the interests of justice and for the protection of the bondholders and stockholders of defendant, Western Bond & Mortgage Company, that an immediate hearing be had on an order to show cause why such relief should not be granted plaintiffs, and I further say that at said hearing there will be tendered to the court proof in support of the allegations set forth in said amended complaint.

Further affiant sayeth not.

(S) ALLEN H. McCURTAIN.

Subscribed and sworn to before me this 21st day of November, 1931.

(S) IRENE JOHNSTON,

Notary Public for Oregon.

My Commission expires: Oct. 9, 1933.

(SEAL)

DEFENDANTS' EXHIBIT 103 AND 103A
Excerpts from Transcript in McBride v. Bank of
California

Excerpts from Amended Petition for an Order Re-
quiring Bank of California to Turn Over Property
(Pages 18 to 29)

II.

That at the time of filing of the said petition in bankruptcy against the said Western Bond & Mortgage Company, the said Western Bond & Mortgage Company was the owner of all the capital stock of the Keystone Finance Company, an Oregon corporation; that said Keystone Finance Corporation was operated and manipulated at all times by the said Western Bond & Mortgage Company as its adjunct, subsidiary and agent, and for the sole purpose of carrying out its designs and biddings; that all the officers and directors of the Keystone Finance Company were chosen by the said Western Bond & Mortgage Company from the said Western Bond & (16) Mortgage Company's office employees who had no financial interest or actual stock holdings in said Keystone Finance Company and who acted without discretion or will of their own and as mere puppets to carry out the wishes and commands of said Western Bond & Mortgage Company; that said Keystone Finance Company had no office or place of business of its own, kept no books, made no tax returns to the Government, federal or

state, and did no independent business of its own, but that its office and place of business was the office and place of business of the said Western Bond & Mortgage Company, which kept the said Keystone Finance Company's books and which made the said Keystone Finance Company's tax returns as a part of its own books and its own tax returns; that the officers and employees of the Keystone Finance Company were paid no salaries or other compensation by the said Keystone Finance Company, but whatever salaries said officers and employees received were paid by said Western Bond & Mortgage Company as a part of the regular salary and compensation for services to the said Western Bond & Mortgage Company; that said Keystone Finance Company was a mere corporate shell and had no actual existence for its own purposes, but existed solely as subsidiary, underling, agent and alter ego of said Western Bond & Mortgage Company; and that the corporate existence of said Keystone Finance Company was against public policy of, and in fraud of, the State of Oregon. That said Keystone Finance Company held title in its name to certain real property in the County of Crook, State of Oregon, hereinafter to be designated as the Russell Ranch, consisting of over 8000 acres of land and described as follows:

* * * * * * *

but that said title was held at all times by it for and on behalf of the said Western Bond & Mortgage Company as agent, subsidiary and alter ego of said West-

ern Bond & Mortgage Company, and that before, at, and after the filing of the petition in bankruptcy, against said Western Bond & Mortgage Company, said Western Bond & Mortgage Company in truth and in fact owned and was in possession of the fee in said Russell Ranch, and owned and possessed said property."

* * * * *

V.

That at the time of the filing of the petition in bankruptcy by virtue of its ownership of all the stock in the Keystone Finance Co. and by further reason of its ownership of said mortgages, securing notes of the Keystone Finance Co. aggregating \$150,000.00, the said Western Bond & Mortgage Company actually and in fact owned both the equitable and legal title in the said Russell Ranch.

* * * * *

IX.

That said plan or arrangement, to which the said Bank of California, National Association, was a party, contemplated or provided that the mortgages upon said Russell Ranch, heretofore referred to in Paragraph III hereof, securing notes of the said Keystone Finance Co., aggregating \$150,000.00 held by the said Western Bond & Mortgage Company would be released and satisfied by the said Western Bond & Mortgage Company and that at or about the same time the said Keystone Finance Co. would transfer to a company to be formed and to be known as the

Ochoco Farms Corporation said Russell Ranch heretofore described in paragraph II hereof, thus giving to the said Ochoco Farms Corporation the fee simple title to the said Russell Ranch, theretofore held by the said Keystone Finance Co., unencumbered, however, by any mortgage lien whatsoever. That said plan or arrangement further contemplated or provided that the said Ochoco Farm Corporation should execute to the Massachusetts Mortgage Company, a Washington corporation which owned stock in and controlled the said Western Bond & Mortgage Company and the said Ochoco Farms Corporation, a first mortgage 20) upon said Russell Ranch heretofore referred to, securing notes aggregating \$55,960.00, payable to the said Massachusetts Mortgage Company. And said plan or arrangement further contemplated and provided that the said Massachusetts Mortgage Company would thereupon assign said notes, aggregating \$55,960.00 and said mortgage securing them to the said Bank of California, National Association. And said plan or arrangement further contemplated and provided that twenty bonds issued by Boundary County, Idaho, Drainage District No. 10, each of the face value of \$500.00, owned by said Western Bond & Mortgage Company at the time of the filing of the petition in Bankruptcy against it should be transferred to said Bank of California, National Association.

* * * * *

State of Oregon

County of Multnomah—ss.

* * * * *

I, Geo. M. McBride, being first duly sworn, depose and say: That I am the petitioner herein and Trustee in Bankruptcy of the above entitled estate and that the facts contained in the foregoing petition are true as I verily believe.

GEO. M. McBRIDE.

Subscribed and sworn to before me this 11th day of August, 1936.

S. A. McALLISTER,
Notary Public for Oregon.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

(Pages 58 to 69)

The names of certain companies occur with frequency in this record, viz.: Western Bond & Mortgage Company, Keystone Finance Company, Massachusetts Mortgage Company, Ochoco Farms Company, Bank of California, and a parcel of real estate called Russell Ranch. For brevity these corporations and the ranch will be herein referred to, in the order named, as follows, Mortgage Co., Finance Co., Massachusetts Co., Ochoco Co., the Bank, and the Ranch.

The sum and substance of the transaction to be inquired into, as set up by the pleadings, is com-

pounded of the following occurrences :

On November 25, 1931, an involuntary petition was filed against the Mortgage Co. by creditors, and subsequent steps resulted in its adjudication as bankrupt on September 24, 1934. On said November 25th it appears that control of its capital stock was possessed by Massachusetts Co.; that the Mortgage Co. in turn owned all of the stock of the Finance Co., which, in turn, held title to a livestock ranch in Crook County, Oregon, commonly called the Russell Ranch. This ranch embraces some 8,000 acres in area. Both the Mortgage Co. and the Massachusetts Co. were going concerns which were, or had been, doing considerable business in the field of finance, but the Finance Co. was merely a subsidiary of the Mortgage Co.; it did no business, its officers were supernumeraries and servants of the Mortgage Co., subject to the direction and control of the latter officers, and it held title to the ranch as auxiliary of the Mortgage Co., and by its direction. Pursuant to its function as a holding concern it had, some time (50) previously, executed and delivered to the Mortgage Co. notes for the sum of \$150,000, secured by a mortgage upon the ranch, which securities were still owned and possessed by the Mortgage Co. on November 25, 1931. At the date aforesaid, the Mortgage Co. was indebted to the bank in a sum upward of \$100,000 secured by collateral pledged. On and prior to February 13, 1932, the Bank deemed the collateral held by it insufficient to liqui-

date this debt; whereupon, on that date and a few days subsequently, the following took place:

The Mortgage Co. caused to be formed the Ochoco Co. and the Finance Co. to transfer to it title to the ranch. The Mortgage Co. thereupon released of record its mortgage security. Ochoco Co. executed and delivered to Massachusetts Co. notes totalling \$55,957, the amount required to liquidate certain advances some time previously made to Massachusetts Co. by the Bank, together with the debt of the Mortgage Co. to the Bank, the aforesaid sum being arrived at after computing the probable liquidation of the collateral held. The Finance Co. accompanied the notes by a mortgage upon the ranch, which was then unencumbered, and the Massachusetts Co. then assigned these instruments to the Bank. All these documents were recorded in Crook County, Oregon, on March 2, 1932. Also, as part of these transactions, there was transferred by Mortgage Co. to the Bank twenty certain Idaho irrigation bonds of the face value of \$500 each, which were also property of the Mortgage Co.

* * * * *

So far as I now perceive the foregoing covers all the questions involved in this matter. The Bank undoubtedly possessed not only constructive knowledge of the position of the Mortgage Co. on the date aforesaid, but, in addition, it had, or acquired, actual knowledge of what was about to be done in the ultimate by all these instruments. Beyond any question

it knew, or could have known, that the Mortgage Co. owned a \$150,000 mortgage (57) upon this ranch. It knew, in addition, that the title held by the Keystone Finance Co. was for the benefit of the Mortgage Co.; in fact it knew that the Mortgage Co. was the only individual who had any interest in the ranch. It knew, from the very nature of the instruments drawn, and necessary to be drawn, that it was about to take from the Mortgage Co. its security, and when all the papers mentioned in these proceedings were by it filed for record in Crook County, Oregon, that it thereupon had, in fact, supplanted the Mortgage Co. with security, covering its own loan, upon said ranch and that the Mortgage Co. had been deprived of its security. It carefully computed the value of the collateral held by it and took the mortgage for the balance then remaining due from the Mortgage Co. to it, plus the moneys which it had theretofore passed to the Massachusetts Co. In doing all this it well knew that the Mortgage Co. was being deprived of an asset which belonged to it on the date of the petition, at all times after the petition, and which now belongs to it, and it may, in my opinion, be required to restore such status quo.

For these reasons the finding and conclusion is that the Bank must by order be required in some manner to restore the asset attempted to be destroyed by the instruments filed in Crook County, Oregon, on March 2, 1932, described in the pleadings in this case, and an order to this effect may be settled on service

and notice.

Dated at Portland, Oregon, February 8, 1937.

A. M. CANNON

Referee in Bankruptcy

Filed February 8, 1937. A. M. Cannon, Referee in Bankruptcy—Oregon.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

(Pages 70 to 82)

* * * * *

(3) That at the time of the filing of said petition in bankruptcy against the Western Bond & Mortgage Company, all the capital stock of the said Western Bond & Mortgage Company was owned by the Massachusetts Mortgage Company, a Washington corporation, and that the Western Bond & Mortgage Company was the owner of all the capital stock of the Keystone Finance Company, an Oregon corporation; that said Keystone Finance Company was operated and manipulated at all times by the said Western Bond & Mortgage Company as its adjunct, subsidiary and agent and for the sole purpose of carrying out its designs and biddings, and was a mere corporate shell and had no actual existence for its own puproses, but existed solely as a mere agent and alter ego of the said Western Bond & Mortgage Company. That the officers and directors of said three corporations and of the Ochoco Farms Corporation, hereinafter men-

tioned, were interlocking.

(4) That said Keystone Finance Company at the time of the filing of the petition in bankruptcy herein held title in its name to certain real property in the County of Crook, State of Oregon, known as the Russell Ranch, consisting of some eight thousand acres of land and described as follows: (60)

* * * * *

but that said title was held at all times by it for and on behalf of the said Western Bond & Mortgage Company as agent, subsidiary and alter ego of said Western Bond & Mortgage Company.

(5) That at said time of the filing of the petition in bankruptcy herein, the said Western Bond & Mortgage Company was also the owner of two notes, one in the amount of \$77,500.00 and the other in the amount of \$72,500.00, executed in its favor by the said Keystone Finance Company and secured by first mortgages duly recorded upon said Russell Ranch in favor of said Western Bond & Mortgage Company, and that said mortgages were first mortgage liens upon said property.

* * * * *

(9) That thereupon and after the filing of the petition in bankruptcy against the said Western Bond & Mortgage Company caused to be formed a corporation named the Ochoco Farms Corporation under the laws of the State of Oregon, and caused the Keystone Finance Company to transfer to said Ochoco Farms

Corporation title to the said Russell Ranch, and simultaneously therewith the Western Bond & Mortgage Company, without receiving any consideration therefor, released and satisfied the said mortgages which it held against said property, thus giving to the Ochoco Farms Corporation the fee simple title to the said Russell Ranch unencumbered by any mortgage liens whatsoever. That thereupon the Ochoco Farms Corporation executed and delivered to the Massachusetts Mortgage Company a first mortgage upon said Russell Ranch to secure notes aggregating \$55,960.00, thereby supplanting the first mortgages theretofore held by the Western Bond & Mortgage Company. That the said Massachusetts Mortgage Company thereupon simultaneously assigned said notes, (62) aggregating \$55,960.00, and the mortgage securing the same to the Bank of California, National Association.

* * * * *

(16) That the Bank of California, National Association, (64) had actual knowledge, prior to the receipt of the notes aggregating \$55,960.00 and prior to the assignment of mortgage to it securing said notes and prior to the executing and recordation of the instruments referred to in Finding No. 12, of the filing of the petition in bankruptcy against the Western Bond & Mortgage Company, and had actual knowledge at and prior to said time of the ownership by the Western Bond & Mortgage Company of the notes given by the Keystone Finance Company in the

amount of \$77,500.00 and of \$72,500.00, and of the ownership of the two first lien mortgages upon the said Russell Ranch to secure the payment of said notes, and of the recordation thereof; and that said Bank, also at said time, had knowledge of the fact that the recordation of the satisfaction of the mortgages held by the Western Bond & Mortgage Company and the recordation of the mortgage to the Massachusetts Company and the recordation of the assignment of that mortgage to it would supplant in its favor the first mortgage lien held by the said Western Bond & Mortgage Company upon said Russell Ranch, and accordingly would deprive the Western Bond & Mortgage Company of its property rights in said Ranch; and that the said Bank also had actual knowledge of the true character of the Keystone Finance Company in relation to the said Western Bond & Mortgage Company as set forth in Finding No. 3; and of the ownership by the Massachusetts Mortgage Company of all of the stock in the Western Bond & Mortgage Company, and of the interlocking character of the officers of the various companies, as also set forth in Findings No. 3.

* * * * *

OPINION—NOVEMBER 17, 1941

(Pages 188 to 213)

James Alger Fee, District Judge:

The present controversy arises (1) on review of the Report of Referee on determination of order to

be made for restitution of real property to trustee and (2) on motion for re-hearing of the question of whether summary jurisdiction to order turnover was properly exercised.

* * * * *

The development of the action commenced in the year 1929. Title to the "Russell Ranch" was then held by Western in the name of the Russell Company as wholly owned subsidiary which was actually operating the property. During that year Keystone was organized. On December 20, 1929, Russell Company deeded the "Russell Ranch" to Keystone. There was apparently no consideration for the transfer, as the value of the stock of the Russell Company from then on is carried as "nominal". On December 20, 1929, Keystone, through E. Hagenbucher, President, and L. Kelly, Secretary, executed two mortgages upon the "Russell Ranch" to Western. One of these was in the sum of \$72,500 and the other in the sum of \$77,500. Both were recorded December 28, 1929. On December 24, 1929, Keystone had increased its capitalization from \$1000 to 1500 no par value shares, obviously for the purpose of putting a fair face on the over-capitalization of the "Russell Ranch" above outlined. On January 6, 1930, Keystone had on deposit \$150,000, resulting from deposits of \$72,500 and \$77,500. On that date there was withdrawn \$72,500. It received \$27,600 on January 10th and \$45,000 on January 13th, and on January 21, 1930, the account was closed.

December 20, 1930, the Massachusetts Bond & Mortgage Company acquired complete control of Western common stock by sale from Laurel Investment Co. of 5146 shares thereof. As part of the purchase price, Massachusetts agreed to pay the obligations of \$112,537.57 of Western to the Bank at the rate of \$10,000 every six months until paid. On January 12, 1931, W. E. Johnson, E. F. O'Flynn and E. J. Boxer were elected Directors of Western, Johnson and O'Flynn only attending the meeting, and 5146 shares only being voted, O'Flynn voting 5044 as proxy of Massachusetts. In 1932 W. E. Johnson acted as President, E. E. Gallagher acted as Vice-President and E. F. O'Flynn as Secretary of the corporation. On January 12, 1931, there were issued to E. E. Gallagher, D. G. Smith and B. O'Reilly, respectively, 1 share of stock of Keystone and to Western the balance thereof in the amount of 1497.

* * * * *

At the date of the bankruptcy, Western owned the Drainage District Bonds which it transferred or caused to be transferred to the Bank as a part of the transaction hereinafter set out. On February 11, 1932, a resolution was passed by Keystone to accept an offer of Ochoco (the articles of incorporation for which were not filed until February 16, 1932) of 850 shares of preferred capital stock of Western for the "Russell Ranch". This resolution is signed by E. E. Gallagher as President and L. Thibodeaux as Secretary of Keystone. The deed, pursuant to this resolu-

tion, was executed February 13, 1932, but not placed of record until March 2, 1932. On February 13, 1932, Western executed satisfaction of mortgages given by Keystone to it, dated December 20, 1929, in the sum of \$77,500 and \$72,500. These are signed by E. E. Gallagher, Vice-President, and attested by E. F. O'Flynn, Secretary-Treasurer, sealed with the corporate seal and acknowledged by both officers before Louise M. Thibodeaux as Notary Public.

* * * * *

A review of the complicated facts indicates that Western owned the "Russell Ranch" but held title first in the name of Russell Company, from whence title was transferred at discretion of Western to Keystone, which, thereupon, mortgaged the land for more than its value to Western. Although the full amount of consideration for these mortgages was paid by Western to Keystone, this money disappeared from the Keystone account in a short time.

The question here, then, is how this particular real estate was held. The court held, heretofore, that although the record title was in the Keystone, actual title was in bankrupt.

* * * * *

TESTIMONY TAKEN ON NOVEMBER 9 AND 10,
1936, ON ORDER TO SHOW CAUSE TO BANK
OF CALIFORNIA

(Page 249)

On November 9, 1936, at ten o'clock in the forenoon, the above entitled cause came on for hearing

before Honorable Anderson M. Cannon, Referee in Bankruptcy, upon an order to show cause directed to the Bank of California.

The Trustee in Bankruptcy, Mr. George McBride, was present and represented by his attorney, Mr. Sidney Teiser.

The Respondent, Bank of California, N. A. was represented by Mr. W. Lair Thompson of McCamant, Thompson & King.

* * * * *

TESTIMONY OF THOMAS G. GREENE

(Page 253)

Mr. Teiser. Before you answer may I ask whether you have produced the abstract of title requested?
A. Yes.

* * * * *

Redirect Examination

(Page 256)

By Mr. Teiser:

Q. Mr. Greene, when you examined this title—you did examine the title, did you not?

A. I examined the title.

Q. As to the Russell Ranch? A. Yes.

Q. I may be a little ahead of my story. The (Testimony of Thomas G. Greene.)

Bank of California was receiving or taking assignment of mortgage from the Massachusetts Mortgage Company, the mortgage which had been given to them

by the Ochoco Farms Corporation?

A. It had not at the time I examined the abstract. It was merely discussed by the parties, the Bank of California, Mr. O'Flynn and myself. The abstract was brought to me first in the early (8) part of January, 1932.

Q. Before the assignment was taken you had the abstract before you. A. Yes.

Q. And at that time, I call your attention to page ten of these pages here, there appears to be recitation of the fact that the Keystone Finance Company, an Oregon corporation, had executed a mortgage to the Western Bond and Mortgage Company for seventy-two thousand five hundred dollars, executed on the 20th day of December, 1929; and another mortgage from the Keystone Finance Company, an Oregon corporation, to the Western Bond and Mortgage Company for seventy-seven thousand five hundred dollars, making a total of the two mortgages, and the notes secured by the mortgages, of a hundred and fifty thousand dollars?

A. That is correct.

Q. And that was apparent in the abstract?

A. It was. Let me see that page there.

* * * * *

(Page 259)

Q. The abstract also shows a deed from the Keystone Finance Company, an Oregon corporation to the Ochoco Farms Corporation, dated February 13th

and recorded March 2, 1932, of the property covered by the mortgages and the satisfactions of mortgage; is that right?

A. Yes, if it is there. I did not charge my memory as to what was in the abstract.

Q. That is the reason I am calling your attention to it. A. That is what it shows.

* * * * *

TESTIMONY OF E. E. GALLAGHER

(Page 269)

Mr. Teiser. I merely wanted to show that the Western Bond and Mortgage Company was owned and controlled by the Massachusetts Mortgage Company.

Mr. Thompson. We will admit it.

* * * * *

(Page 277)

Q. I hand you affiliations schedule of income tax return for 1930 of the Western Bond and Mortgage Company and ask you whether or not the signatures attached thereto of W. E. Johnson and E. F. O'Flynn attached are the signatures of these people who were officers of the Western Bond and Mortgage Company?

A. Yes. I recognize the signatures of Mr. Johnson and Mr. O'Flynn. (29) (Testimony of Miss E. E. Gallagher.)

Q. Were they directors of the Western Bond and Mortgage Company? A. Yes, they were.

Mr. Teiser. I offer this schedule in evidence with

the papers attached to it and call particular attention to the item "7" on the schedule and to item "10", one showing the ownership of all the stock in the Central Realty Company by the Western Bond and Mortgage Company, and the other showing stock of the Keystone Finance Company owned by the Western Bond and Mortgage Company.

Mr. Thompson. Object to it as something we could not possibly have had knowledge of at the time, and it cannot be binding upon us, and it don't prove ownership of the stock; anyhow it is incompetent and immaterial.

Mr. Teiser. That is the statement of the Western Bond and Mortgage Company signed by its officers and shows they made oath that they owned five shares of stock in the Central Realty Company and the entire ownership of the Keystone.

* * * * *

(Page 301)

Mr. Thompson. It is a self-serving statement and cannot be binding.

The Court. It can go in under the objection.

Mr. Thompson. Is it necessary to save exceptions; may that be understood that we save exceptions to the ruling?

The Court. That may be understood.

The papers were marked Trustee's Exhibit 7, Nov. 9, 1936. (30)

* * * * *

Q. I will ask you whether or not Mr. O'Flynn on the 20th day of December, 1930, was not elected a director of the company? A. Yes.

Q. And ask you whether or not Mr. Johnson was elected president at the meeting of December 20, 1930 and Mr. O'Flynn was elected secretary-treasurer on that date? A. Yes.

(Testimony of Miss E. E. Gallagher.)

Q. And that they continued as president and secretary-treasurer and director respectively until the 2nd day of May, 1932; is that right? A. Yes.

Q. Where was the office of the Keystone Finance Company in February, 1932?

A. At the Western Bond and Mortgage Company.

Q. And for a time previous to that was it there? (55)

A. You mean how far back was it there?

A. It was there for some time previous to that time? A. Yes.

Q. Did the Keystone Finance Company pay any rent for its offices during that period of time?

A. Not as far as I know.

Q. You were president, were you not?

A. Yes.

Q. Were you or any of the other officers of that company paid any salary as officer of that company by the Keystone Finance Company? A. Yes.

Q. Your entire compensation came from the Western Bond and Mortgage Company?

A. You mean our salary?

Q. Yes. A. Yes.

Q. In other words you received no compensation from the Keystone Finance Company?

A. No.

Q. Nor did any of the other officers so far as you know? A. So far as I know.

(Testimony of Miss E. E. Gallagher.)

Q. You were president and a director?

A. Yes.

Q. Were you and Miss Smith and Miss O'Reilly employees of the Western Bond and Mortgage Company? (56) A. Yes.

Q. And were there any other employees of the Keystone Finance Company?

A. Not so far as I know.

Q. There were none? A. No.

Mr. Teiser. I call attention, if your Honor please, to keep the record straight, to Trustee's Exhibit seven, already introduced, showing the ownership of the Keystone Finance Company in the Western Bond and Mortgage Company of the entire stock holdings.

Q. Miss Gallagher, was there any change in the stock ownership of the Western Bond and Mortgage Company from the time this tax return was filed until the Western Bond and Mortgage Company had a petition in bankruptcy filed against it? The date of the tax return is the 4th of March, 1931, and it was for the year 1930. Was there any change in the officers of the Keystone Finance Company after March, 1931?

A. After March, 1931, up until what time?

Q. Up to any time—up to the time of the filing of the petition in bankruptcy?

A. The only difference was Miss Smith resigned as a director.

(Testimony of Miss E. E. Gallagher.)

Mr. Teiser. I introduce the original deeds of the Russell Land & Livestock Co. to the Keystone Finance Company of the (57) property, mortgage on which was subsequently assigned to the Bank of California.

The deeds attached together were marked Trustee's Exhibit 15. Nov. 9, 1936.

Mr. Greene. The property of the Keystone consisted of two parcels of land and the mortgage covered the two parcels, but it was all in one grant.

Mr. Teiser. At the time these deeds were given they made the conveyance in two parcels on December 20, 1929, both of them. It consisted of two parcels, as you will see, and when mortgaged to the Massachusetts Mortgage Company it was likewise in two parcels. They did not unite them in one instrument until I think the Ochoco came into it. I introduce these two deeds and have asked they be marked as one exhibit, fifteen. I would now like to introduce certified copies of the mortgages upon these two pieces of property from the Keystone Finance Company to the Western Bond and Mortgage Company, both of which mortgages are dated December 20, 1929, the

same day the deed was given to the Keystone, and these show they were recorded on the 28th day of December, 1929 that is, the deed on the Russell land, Trustee's Exhibit 15, and the mortgages which I am about to offer, both were recorded on December 28, 1929, at three o'clock p.m. In other words the deeds and mortgages were given and recorded at the same time. I ask that the mortgages be marked. (5S)

* * * * *

(Page 306)

Q. Miss Gallagher, I ask you to look at this minute book identified as Keystone Finance Company's minute book, and ask you whether or not the first or top sheet is not the record of a special meeting of the board of directors of the Keystone Finance Company and the time given for the meeting is not Portland, Oregon, February 11, 1932, at the hour of two p.m.? A. Yes.

Q. Were these minutes signed by you as president and Miss Thibodeaux as secretary?

A. Yes.

Q. Of the Keystone Finance Company?

A. Yes.

* * * * *

TESTIMONY OF R. ERICKSON

(Page 330)

Q. Have you made an examination of the books of the Western Bond and Mortgage Company and

affiliated companies which we have mentioned here?

A. Certain of the accounts, yes.

Q. Have you examined them in regard to the principal transactions so far as they relate to the Russell Ranch and the transactions between it and the Western Bond and Mortgage Company and the Massachusetts Mortgage Company involved in the transfer to the Bank of California?

A. Yes I have.

(Testimony of R. Erickson.)

Q. Will you state from your examination of the books and records of the Western Bond and Mortgage Company what the voting stock of that company was in January, February and March, 1932?

A. Six thousand shares of common stock.

Q. Was there some preferred stock?

A. Four thousand shares of preferred stock outstanding.

Q. Did that preferred stock have voting power?

A. It did not. The stock contained a provision it did not participate in the voting unless three semi-annual dividends had been passed.

Q. Had three semi-annual dividends been passed at that time? A. They had not.

Mr. Thompson. Is that from the books?

Q. What dividends had been passed?

A. The last dividend paid was for December 31, 1930, and the next (\$6) dividend would be payable June 30th, 1931.

Q. And the records show the dividends were paid

on December 31, 1930? A. Yes.

Q. There has been introduced in evidence as testimony and marked Trustee's Exhibit 17 satisfaction of two mortgages running from the Western Bond and Mortgage Company to the Keystone Finance Company, the satisfactions being each dated the 13th of February, 1932, one satisfaction for the mortgage of \$77,500 and the other of a mortgage of \$72,500, both satisfactions recorded March 2, 1932, at 4:50 p.m. I will ask you whether or not the books show that the Western Bond and Mortgage Company received any consideration from the Keystone Finance Company for the satisfaction of these mortgages?

A. The Western Bond and Mortgage Company received nothing from the Keystone Finance Company to satisfy either of these mortgages.

Mr. Thompson. Move to strike the answer as not responsive.

Mr. Teiser. My question will show I asked what the books show.

A. The books do not show any consideration was received.

Q. The books as to this transaction were pretty thoroughly examined by you? A. Yes.

Q. And do the books show each transaction pretty fairly plain from time to time? A. Yes. (87)

Q. Every indication of being well kept?

A. Yes I would say the books were well kept.

Q. Do they show that any consideration was ever paid by the Keystone Finance Company for the satis-

faction of these mortgages?

A. I found no record of it.

Q. Would you or would you not say from the books and records that no consideration was paid for these satisfactions by the Keystone—books of the Western Bond and Mortgage Company; let me put it this way: Then would you say from an examination of the books and records of the Western Bond and Mortgage Company no consideration was paid by the Keystone Finance Company to the Western Bond and Mortgage Company for the satisfaction of these mortgages?

A. I found no record of any such consideration from the Keystone.

Q. You found no record of any consideration being paid?

A. No. records of any consideration being paid.

* * * * *

(Page 353)

By Mr. Thompson:

Q. You have answered a number of interrogatories by counsel for the Trustee, after stating you examined the books of the Western Bond and Mortgage Company, to the effect that something included in your statement was not in the books; when you made such statements did you include the books of the subsidiary companies?

A. Yes I included the books of all the companies as far as I examined them.

Q. Have your examination of all of them been thorough enough to say that your statements do not

appear in any of the books of the subsidiary companies?

A. Concerning the transaction here, yes.

Q. You were going to bring me some sheets showing financial transactions between the Keystone and the Western Bond. I may not want to use them, but I wanted to take a look at them.

(Witness produces certain papers)

Q. Mr. Erickson, I have a little difficulty or maybe I am not competent to understand these four sheets you have handed me. What are they taken from?

A. These are from the bills receivable of the Western Bond and Mortgage Company. Either receivables or payables, they included them at the time under one control some time and under another at other times.

Q. Just for my information these are folio references?

The Court. You had better introduce them in evidence so you can identify what you are talking about in the record. (108)

Q. I hand you a sheet marked Respondent's Exhibit B for identification, and ask you if that is a sheet from the ledge of the Western Bond and Mortgage Company covering the accounts of the Keystone Finance Company with respect to the two Mortgages and notes that are involved?

Mr. Teiser. What two mortgages?

Mr. Thompson. Involved in this. You understand what I mean, don't you Mr. Erickson, and I think the court understands.

Mr. Teiser. I agree with you for the time being.

A. This is a ledger sheet of the Western Bond and Mortgage Company in which they recorded the transaction wherein they took the mortgage or mortgages from the Keystone Finance Company for one hundred and fifty thousand dollars covering the Russell Ranch, and this was accomplished in January, 1930.

Q. Did you find similar entries in the books of the Keystone Finance Company?

A. There are no books of the Keystone Finance Company.

Q. You have not been able to find any books of that Company at all? A. I have not.

Q. The third column represents the charges and the fourth the credits. Does that mean the Keystone was given credit on the Western Bond and Mortgage Company books for the \$150,000?

A. It does. (109)

Q. And the charges are withdrawals from that account?

A. They are disbursements made by the Western Bond and Mortgage Company on that account.

Q. Do the books show what the disbursements were made up of?

A. The books shows they are checks issued to the Keystone Finance Company.

Q. Did you find any books at all showing what they may have been used for by the Keystone?

A. I found none at all.

Q. The expenses are apparently to the subsidiary

by the Western Bond and Mortgage Company?

A. Yes, disbursements made on that account by the Western Bond and Mortgage Company.

Q. And whether that money was used by the Western to retire its obligations or for some other purpose you do not know; the books do not show?

A. I could not tell you except what is there.

Q. No record at all *the* show what they were used for? A. None at all.

Q. Did you find anything in the Keystone account to indicate that the money was expended for the Keystone as distinguished from the Western Bond and Mortgage?

A. There is nothing to show what became of it.

Q. You have no Keystone books at all?

A. No.

Q. You found nothing to explain the transaction as far as the (110) Keystone is concerned or show its receipt of it. A. I have nothing.

Q. You have some records showing there was a corporation? A. In the minute book.

Q. You found nothing in the minute book to show the expenditure of the one hundred and fifty thousand on that day or after that date, or that would show the value of the Keystone Finance Company?

A. No.

Q. And you found nothing that would show value in the Keystone Finance Company on that date or thereafter or to account for this money. A. No.

Q. So, so far as your investigation has gone you

do not know whether that money was expended for purposes of the Western Bond and Mortgage Company or for purposes of the Keystone Finance Company?

A. I don't know what was done with it.

* * * * *

TESTIMONY OF T. G. GREENE

(Page 402)

By Mr. Teiser:

Q. You say you went up to the court to hear these lawsuits?

A. I did not hear any of the suits. I heard arguments.

Q. Did you examine the papers in the cases at all?

A. Some I did, I read the petition in intervention, and one of the later petitions filed by Mr. Mott on behalf of the Corporation Commissioner in August of 1934.

Q. That was long after?

A. It had nothing to do with it at all.

Q. But before this last move was made you heard the arguments, and I think you said one in the State court?

A. In Judge Hall Lusk's department, and also before Judge McNary.

The Court. When were these suits you refer to?

A. One was commenced in March, 1931, and the other one in April, 1931, the principal one I think. There were four or five others.

Q. Did you see the complaints in these cases?

A. No only just to see who the parties were.

Q. You heard the argument but didn't look up the complaints? A. Yes. (157)

Q. Why did you go up to hear the arguments?

A. I knew it was the company in which O'Flynn was interested.

Q. Why did you go? Why was that?

A. Because the Bank of California was trying to get some additional security from the Western Bond and Mortgage Company.

Q. Did you know of this suit against the Western Bond and Mortgage Company brought by Allen McCurtain? A. Yes that was one of them.

Q. And another brought by Carl Little?

A. Yes.

Q. And the John Brocker suit brought in the United States District Court? A. Yes.

Q. Colonel Clark was engaged in this suit, was he not?

A. There were eight or ten lawyers participating in the argument.

Q. Don't you know that the charge was made in that suit that the Keystone Finance Company was a mere dummy of the Western Bond and Mortgage Company.

A. I didn't know it was charged in the complaint. I heard it, I think from some lawyer up there.

Q. You say it was a mere blackmailing scheme on the part of some of the certificate holders?

A. I didn't say that. I said I heard some of the lawyers or it may have been Mr. O'Flynn say that.

Q. You wanted to find out what was being done?

(158)

A. I wanted to get the facts if I could.

Q. Did you think that Mr. McCurtain and Mr. Little and Colonel Clark were engaged in a blackmailing scheme?

Mr. Thompson. I object to that. it is improper.

The Court. Objection sustained.

* * * * *

(Page 407)

Q. I notice in this letter of yours that you ask for certain resolutions of the board of directors?

A. Yes.

Q. In the third paragraph you ask for a resolution of the board of directors of the Keystone Finance Company? A. Yes.

Q. I understood you to say you saw these resolutions?

A. Yes I saw them. they showed them to me but I wanted certified copies of them.

Q. In your answer to Mr. Thompson you said you had not seen this exhibit 19. I ask you whether or not—— A. I never saw this.

Q. It is not one you saw?

A. I did not see it.

Q. Will you look through the Keystone Book?

A. I did not see it in the book. It is not there.

Q. Do you say you ever saw this?

A. No. (161)

Q. You never saw it? A. I never saw it.

Q. What makes you think you never saw it?

A. The figures in there, *eight*-five thousand dollars of the preferred stock, that is one thing that makes me know I never saw it. I never saw that, it was not furnished to me.

Q. Have you copies of the one you did see?

A. I don't know if I have or not.

Q. You had a copy of the Ochoco one, did you not?

A. That is in the abstract.

Q. I ask for it? A. I will look it up.

Q. Have you your papers here?

A. Yes but it is not here, no use to look for it, I did not see that, It was just a short resolution, no recitals in it except to authorize the making of the satisfaction of mortgage.

Q. I am not speaking of the satisfaction of mortgage. I am asking about the transfer of the property, to the writing here, eighty-five thousand shares of the preferred stock of the Western Bond and Mortgage Company and other valuable consideration, and it appearing that the said offer was attractive and the board having considered the same, it was moved and seconded the following resolution be adopted: Resolved, that this company accept from the Ochoco Farms Corporation eight hundred and fifty shares of the preferred capital stock of the Western Bond and Mortgage Company and other valuable consideration

in full consideration (162) for the properties owned by it and located in Crook County and known as the Russell Ranch.

A. I never saw that resolution before.

Q. Of the preferred capital *capital* stock—that is the preferred stock of the Western Bond and Mortgage Company. The resolution reads on, for the properties owned by it and located in Crook County and known as the Russell Ranch, make a proper deed of conveyance to the Ochoco Farms Corporation.

A. I think I saw that one. That sounds familiar.

Q. You say you saw that one?

A. The one you just read.

Q. That is what I am reading, right there, Exhibit 19. A. You didn't read all of that.

Q. That is a resolution authorizing the transfer of the Russell Ranch?

A. Yes, apparently it is so, but I say that is not the one furnished to me.

Q. Are you positive of that? A. Yes.

Q. Will you look through your papers and see which one you have?

A. I am sure that I have it, but it is not here. It may be attached to my work sheet on the title examination, and I haven't that here. I brought the original abstract but not my work sheets.

Q. You saw all the resolutions, you say you saw all of them? When you went through the book or some place you say you saw them? (163)

A. Yes.

Q. You saw all the resolutions you asked for at some time? A. I did.

Q. All right, let us see. Exhibits seventeen, eighteen, twenty and twenty-one are certified copies of different documents authorized by these corporations, and resolutions were passed for such authorization. Exhibit 18 is a copy of the deed of the property by the Keystone Finance Company to the Ochoco Farms Corporation; Exhibit 20 is the mortgage of the Ochoco Farms Corporation to the Massachusetts Mortgage Company, and Exhibit 21 is where the Massachusetts Mortgage Company gave the assignment of the mortgage to the Bank of California?

A. Yes, I have seen them.

Q. You had the abstract of title and had the original deeds in escrow?

A. I don't know about these deeds.

Q. Where is that paper?

A. Do you mean the one I gave to Mr. O'Flynn?

Q. It was here a moment ago.

A. I have my copy of it.

Q. You had the mortgages of the Keystone Finance Company to the Western Bond and Mortgage Company? A. I did have.

Q. You have a memorandum of it here on this receipt. A. Yes. (164)

Q. That is Trustee's Exhibit 16? A. Yes.

Q. Then you have the conveyance of the Keystone Finance Company to the Ochoco Farms Corporation; is that right? A. I had that deed.

Q. And that is Exhibit 18?

A. I don't know what the exhibit is, but I had it.

Q. Won't you check it up? A. I had it.

Q. Then you had the mortgage executed by the Ochoco Farms Corporation to the Massachusetts Mortgage Company which is Trustee's Exhibit 20?

A. Yes.

Q. And then you had the assignment of mortgage to be executed by the Massachusetts Mortgage Company to the Bank of California?

A. It was not that assignment.

Q. What assignment did you have?

A. It was not delivered to me, it had not been executed, there might have been a copy of an assignment but it was not this assignment here.

Q. Who was that executed by?

A. I don't think it was at all at that time, if it was anybody it was Mr. O'Flynn and that one I sent back.

Q. All these papers mentioned in this particular receipt, (165) with the exception of the two original mortgages, were recorded by you or on your behalf, at the same time, and were returned to you, were they not?

A. I can't tell by these copies, no showing they were returned to me.

Q. I have a letter from the clerk saying they were returned to you?

A. If the clerk says so, it might be so.

TESTIMONY OF H. E. ALWARD

(Page 412)

Q. Have you the credit file of the Western Bond and Mortgage Company? I don't want the whole file; is there anything in it about this particular loan?

A. I don't think there is anything in it. The last entry is July 10, 1932, livestock paper of the Western Finance Company.

The report produced by the witness was introduced in evidence and marked Trustee's Exhibit 30.

Mr. Teiser. I want to ask you some questions about this I think, Mr. Alward.

Mr. Thompson. It is merely things about which Mr. Alward testified about. I call it to the attention of the court.

At 3:30 p. m. the Court declared a recess of five minutes, after which the hearing continued as follows:

Mr. Teiser. If you want to let this file go in for me use what I need to use in it, it will be all right.

A. I do not know anything about it.

Mr. Thompson. We will furnish a witness to identify that if you want it identified.

Witness excused.

Mr. Teiser. I would like to have it identified.

Mr. Thompson. It is a part of our files, when it was (168) compiled I don't know.

Mr. Teiser. The dates are on here.

Mr. Thompson. That is our credit file.

Mr. Teiser. I would like to introduce this credit file.

Mr. Greene. The whole thing?

The Court. Introduce it with permission to withdraw it.

Mr. Teiser. I don't want to be arbitrary. It may be withdrawn if needed.

Mr. Greene. The Bank examiner some times wants those things.

Mr. Teiser. I want to see these newspaper clippings referring to these various suits.

Mr. Thompson. I object to introducing the newspaper clippings as testimony.

Mr. Teiser. I don't want to be arbitrary with Mr. Greenwood or with anybody, or counsel. The attorneys have the credit file and I think it can be withdrawn at any time if he wants it, and if it left with the court I can come up and see it and get what I want from it.

The Court. The Western Bond and Mortgage Company is out of business and probably won't have any need for it, as far as that is concerned. I think it may be introduced in evidence with permission to withdraw it at any time.

Mr. Teiser. I introduce the file of the Bank of California (169) of Western Bond and Mortgage Company as presented here upon request.

The file was received and marked Trustee's Exhibit 31, Nov. 10, 1936.

GEORGE M. McBRIDE

the Trustee herein, being produced as a witness in behalf of The Bank of California, Respondent, and, having first been duly sworn, was examined and testified as follows:

Direct Examination
(Page 605)

By Mr. Thompson:

Q. Mr McBride, on the 13th day of July, 1939 I served a notice upon you to produce the books of account of the Keystone Finance Company. Have you produced them?

A. We have not produced them. However, they are available. You will find that Mr. Munro has gone over them quite carefully, and any of those that you want we are perfectly willing, of course, to have you bring them up here.

Q. We are not willing to do that. We have asked to have you (186) produce the books. We want them here, these particular ones I have asked to have brought here.

Mr. Teiser: Keystone Finance Company books?

Mr. Thompson: Keystone Finance Company books.

A. So far as my recollection goes, we have never been able to find those books. I don't know just what books you refer to, but my best recollection now is that Mr. Erickson and I looked for those books but were unable to find them, whatever they may be.

Mr. Teiser: Who is Mr. Erickson?

Mr. Thompson: I asked you in the notice for the

books of account of the Keystone Finance Company showing disposition of the moneys deposited in The Bank of California, N. A., when the mortgages in litigation in this matter were executed. Now, we have demonstrated here from the testimony of a bank employee that they did draw checks and dispose of money from that bank. Their accounts should show what they did with the money, what it was for, and those are the books we would like to have.

A. We are perfectly willing to produce them if we can find them, but I have——

Q. Well, have you made an effort to find them since this notice was served?

A. Well, I had prior to that, and, as I say, I went down and gave Mr. Munro, on your behalf, who is with the George Black Company, certified public accountants, gave him such assistance (187) as I could to locate any of those accounts which he wished to see or to produce, but my best recollection is that we found no regular books of account of the Keystone Finance Company.

Q. Did you ever find any books of account of the Keystone Finance Company?

A. Well, as I remember now, we did not. At least there were books of the Keystone Finance Company that Mr. Erickson and I endeavored to find to throw what light we could on the situation here, and we were unable to find anything which appeared of any use to us at that time. That is my best recollection now. It has been about three years since we did that.

Q. Just putting aside the question of what your judgment or what Mr. Erickson's judgment might be as to what was useful, did you find any books of account of the Keystone Finance Company?

A. Well, I wouldn't want to say whether we found any at all at this time. It has been, as I say, over three years, and we have about four tons of records there and we have so many records that my recollection just at this time,—I wouldn't say whether we found any books of account at all of the Keystone Finance Company.

Q. I will have to press you, George, just a little. Did you make an effort to find books of account of the Keystone Finance Company at all in response to this request?

A. Well, we made efforts originally to find them. I haven't made any special attempt since this, for the reason that Mr. (188) Munro went down there with me and we looked for any books which might throw any light on this subject, and I assisted him and felt that anything that we could find or that Mr. Munro could find had been found.

Q. Well, I now, then, renew the request to have the books of the Keystone Finance Company brought up here. Another request was that you bring each separate withdrawal check of the Keystone Finance Company showing the withdrawal and disposition of moneys that it might have had in the bank account. Have you brought those?

A. Not unless Mr. Munro has them here. He

brought some papers which he found there, subject to return, and gave his receipt for them, but I haven't the receipt with me now.

Q. Mr. Munro has no such checks, I will tell you that now.

A. Well, then there are no such checks here, and, to my knowledge, not in our records down there.

Q. And you now say that you have no such checks, and haven't had since you have been Trustee?

A. To the best of my knowledge, we have not. We have probably three or four tons of records, and to say definitely that they might not possibly be there would be making a pretty broad statement, but so far as I know, and from having gone over those records, I think very thoroughly, I would say that we haven't those checks.

Q. And have not had since you have been Trustee?
(189)

A. We haven't had since I have been Trustee, unless we have them now, which would be to the best of my knowledge that we have not, but I might be mistaken, where there's four tons of records, and checks not being very large, and a possibility of misplacement.

* * * * *

(Page 622)

Mr. Thompson: I will tell you gentlemen what I propose to do, if you don't bring the books up that we have asked for, if they don't bring them up here, I am going to put an expert on the stand and have

him testify from his notes, as the statute requires. We have asked for the books.

Mr. Teiser: Let it be understood here now that we make available those books to you. They are at the office in the Morgan Building, 738 Morgan Building, where your expert has (203) examined them, and they are there at your disposal.

A. Also in room 307 Worcester Bldg.

Mr. Thompson: Well, your Honor, are you going to adjourn court to that place down there?

Mr. Referee: Let me ask this: Can your experts and Mr McBride go down there and pick out the books you want?

Mr. Thompson: They probably can. We have a list.

Mr. Teiser: All right, we will give you everything you want here.

Mr. Referee: All right, then the order will be that Mr. McBride, accompanied by the experts, will attempt to locate and produce the books and the records required under the demand.

Mr. Thompson: All right.

The Referee: This order is made without determining the question of relevancy of any testimony that might be produced with reference to the books.

Mr. Thompson: Well, I can't go further without them, I will tell you that right now.

Q. Mr. McBride, you spoke about there being tons of those old records. Have you been through all of those, so that you know what is there?

A. I have been through them, I believe, through everything except the individual files, correspondence files, on canceled bond holders. There is a vast amount of those, thousands and (204) thousands of them, and they would produce no result by going through them, so far as I know, and unless there was some specific reason for it there seemed no reason for going through them. However, I have been through even thousands of letters and those various things, and I went through all those books to determine anything which appeared to be relevant. I can't keep it all in my mind now, of course, after three or four years' time. I spent a year, I suppose, going through all the various records in order to run down the various angles of the thing.

Q. Well, then the fact is that, aside from these large records of canceled bonds, was it, you said——

A. Well, their correspondence files.

Q. Dealing with that?

A. But for the most part are correspondence with bondholders relative to these bonds, and contain the canceled bonds which have been—where they have defaulted, and the bonds have been canceled.

Q. All right, and I beg your pardon for not having clear in my mind exactly what it was. Now, aside from those correspondence files, then, I will say that you have been through these records that you mention sufficiently so that you can tell whether a certain set of stuff—I don't care about the particular books—of Keystone Finance Company books are or are not

there?

A. Right now, from my recollection of having gone through them, I would say that very little of the Keystone Finance Company's (205) accounts which would reveal anything really of importance. Whether there is nothing there I wouldn't say.

Q. And then you also would be in position to say that you have been through the books sufficiently that you would know what it showed as to the disposition of the properties of the company, aside from this bond correspondence, from an examination of the books, what the Western Bond & Mortgage Company had done with all of its assets? I don't mean each little fine item, but I mean generally the larger stuff.

A. Well, most of the larger stuff perhaps I would. There were many things, I know, that never were explained or never very clear. Whether it was an absence of records or whether they didn't make proper records or what it was I am not sure.

Q. But you would know what the records do show, and have known that?

A. Well, I would know that. I have been through it at one time.

DEFENDANTS' EXHIBIT 155
PETITION IN INTERVENTION BY
STATE OF OREGON

IN THE DISTRICT COURT OF THE UNITED STATES
 FOR THE DISTRICT OF OREGON

In the Matter of Western)	
	)	In Bankruptcy
Bond and Mortgage Company,	)	No. B-16722
	)	PETITION IN
a corporation.	)	INTERVENTION

TO THE HONORABLE JOHN McNARY AND
 JAMES ALGER FEE, Judges of the above
 entitled court:

Comes now the State of Oregon and Charles H. Carey, Corporation Commissioner of the State of Oregon, and Gottlieb Jossi, Bessie Robinson, Louise B. McClintock, (formerly Louise Buford), and Wm. E. Koenig, who join herein, and by leave of Court first had and obtained, file this petition in intervention in the above entitled proceeding, and respectfully show your Honors and allege:

I.

That Charles H. Carey is the duly appointed, qualified and acting Corporation Commissioner of the State of Oregon.

II.

That the Western Bond and Mortgage Company, the alleged bankrupt, is a corporation duly organized and existing under and by virtue of the laws of the

State of Oregon, having its principal place of business in Portland, Multnomah County, State of Oregon, and that said corporation has been continuously domiciled in the State of Oregon since April 20, 1911; that a copy of its original articles of incorporation are hereto attached, marked Exhibit A, hereby referred to and made a part hereof; that its original authorized capital stock was \$100,000, divided into 1000 shares of the par value of \$100 per share.

* * * * *

XVI.

That said alleged bankrupt corporation conveyed, transferred, concealed and removed, or permitted to be concealed or removed, certain of its property with intent to hinder, delay and defraud its bondholders, creditors and investors, and said alleged bankrupt corporation has sequestered and removed from the State of Oregon and the jurisdiction of its courts many of the minute books, stock books and records of divers and sundry books of accounts of certain corporations in which the alleged bankrupt corporation holds controlling interest in the capital stock, to-wit: Beacon Investment Company, Central Realty Company, Insurance Building Corporation, Ljungdahl Products Company, Western Insurance Agency; and the books, records and accounts of certain other corporations dominated and controlled by the alleged bankrupt corporation, to-wit: Oakley Realty Company, Oak Service Company, Warm River Livestock Company, Bear Valley Livestock Company, Russell

Land and Livestock Company, Grand Ronde Livestock Company, Keystone Finance Company, Livestock Loan Company, and Ochoco Farms Corporation; that the officers of all of the aforesaid affiliated corporations are either the officers or employees of the alleged bankrupt corporation.

* * * * *

XVIII.

That when the Corporation Commissioner of the State of Oregon made his investigation, to the extent that he was able to investigate the affairs of the alleged bankrupt corporation, as hereinbefore alleged, which he was authorized to do under and by virtue of the terms of Section 25-1316, Oregon Code 1930, he reported the facts he was able to ascertain, as said statute provided, to the Attorney-General of the State of Oregon and to the District Attorney of Multnomah County for the purpose of having instituted such proceedings in law or in equity, in the name of the State of Oregon, to protect the interests of the stockholders, creditors and investors of the said alleged bankrupt corporation, as were deemed necessary.

That heretofore on November 25, 1931, there was filed in the United States District Court for the District of Oregon in bankruptcy, cause No. B-16722, an involuntary petition in bankruptcy against the said Western Bond and Mortgage Company, the alleged bankrupt corporation herein, which bankruptcy pro-

ceeding is now pending in said court. The United States District Court for the District of Oregon, by the filing of such petition in bankruptcy, thus has exclusive jurisdiction over the assets, affairs and properties of the alleged bankrupt corporation to the exclusion of all other courts. That said petition in bankruptcy was filed on November 25, 1931, by three alleged creditors, alleging to have provable claims, to-wit:

Warren Harvey, attorneys fees.....	\$500.00
D. R. Potter, wages due for work and and labor	\$ 90.00
Vincent & Vincent, service and printing	\$ 75.00

That thereafter on the 27th day of November, 1931, subpoena was issued and served upon the alleged bankrupt corporation. That on December 14, 1931, certain alleged creditors of said alleged bankrupt corporation duly intervened. Thereafter on December 15, 1931, the alleged bankrupt corporation filed its answer to the petition in bankruptcy, denying that it was insolvent. Thereafter on January 4, 1932, said alleged bankrupt corporation filed its demurrer to the petition of intervening creditors.

That thereafter on the 22nd day of June, 1932, the Judge of the United States District Court in said bankruptcy proceeding appointed MacCormac Snow as Special Master to take testimony and make findings of fact and recommendations to the Court in said bankruptcy proceedings, and ordered that the said

Special Master should require the respective parties to furnish him with such security, not to exceed the sum of \$1,000 for each side, as he may deem sufficient to secure the payment of a Master's fee, including the court reporter and other expenses incident to the reference. No such bond having been provided said MacCormac Snow resigned as Special Master, and thereupon on November 7, 1932, the United States Judge in said bankruptcy proceeding substituted Robert F. Maguire as Special Master in the place and stead of said MacCormac Snow, but no testimony has been taken by the said Master and none of the parties to said proceeding have deposited any bond or security for the payment of expenses of such hearing before such Master.

That on said 7th day of November, 1932, said United States District Judge made an order requiring the alleged bankrupt corporation to serve upon petitioners and intervening creditors a statement under oath, giving the names and addresses of all installment bondholders of the alleged bankrupt corporation, showing the number of bonds held by each bondholder and the number of such bonds, and a list giving the names and addresses of all general creditors of the alleged bankrupt corporation, showing the amount of indebtedness owing to each creditor, and requiring the alleged bankrupt corporation to furnish said statement within ten days from said November 7, 1932. Said alleged bankrupt corporation did not comply with said order.

aforesaid, and with knowledge of the pendency of said bankruptcy proceeding, consented to the substitution of said worthless securities so made by the officers of the alleged bankrupt corporation.

XX.

That in many instances, without the order or permission of the United States District Court, the officers of the alleged bankrupt corporation have been settling with creditors of the said alleged bankrupt corporation, and preferring them in said settlements to the other creditors of the said corporation to the latter's loss and financial injury.

XXI.

That at the date of the filing of the said petition in bankruptcy there was on deposit with the Lawyers Title and Trust Company, under the trust agreements aforesaid, which deposit was made by the alleged bankrupt corporation, two mortgages totaling \$150,000, covering real property known as the Russell Ranch, near Prineville, Oregon, of approximately 14,000 acres, which said mortgages covered all buildings, improvements and equipment on said land, and which said mortgages were of the probable value of \$150,000. That at said time the alleged bankrupt corporation was indebted to the Bank of California, National Association of Portland, Oregon, in a sum approximating \$118,000.

That the Keystone Finance Company, an Oregon corporation, was the record owner of the property

hereinbefore referred to as the Russell Ranch. That said Keystone Finance Company executed the mortgages upon said property to the alleged bankrupt corporation, which latter corporation in turn deposited the mortgages with the trustee as hereinbefore stated.

That on the 27th day of May, 1931, the said Keystone Finance Company, by supplementary articles of incorporation, changed its name to the Keystone Holding Company, with the principal office at 70 Broadway Street, Portland, Oregon, such office being also the office of the alleged bankrupt corporation. That the directors and officers of the Keystone Holding Company are also officers, directors or employees of the alleged bankrupt corporation, and said company while operating under the name of Keystone Finance Company or operating under the name of the Keystone Holding Company, has been at all times under the management and control of the officers of the alleged bankrupt corporation.

* * * * *

XXV.

That prior to and since the filing of the petition in bankruptcy herein, the alleged bankrupt corporation, through its officers, has wrongfully and unlawfully expended, wasted and dissipated its funds, securities and assets, and is hopelessly insolvent. That it is absolutely necessary for the preservation of the estate of the alleged bankrupt corporation that this Court appoint a receiver to take charge of the prop-

erty of the alleged bankrupt corporation, and that such receiver be instructed and directed by this Court to institute such proceedings in law or in equity as may be appropriate to set aside and annul the wrongful transactions of the officers of the alleged bankrupt corporation transferring the securities, property and assets of said corporation, and restoring the same to the estate of said alleged bankrupt corporation, and to institute such proceedings in law and equity as may be fit and appropriate to protect the interests of the stockholders, creditors and investors of the alleged bankrupt corporation, and to this end such receiver be authorized and directed to institute such appropriate proceedings, either in law or in equity, against the officers of the said alleged bankrupt corporation as may be deemed necessary.

* * * * *

XXVII.

Reference is hereby made to the affidavit of Charles A. Goodwin, Deputy Corporation Commissioner of the State of Oregon, hereto attached, who made an investigation of the books and records of the alleged bankrupt corporation, and reference is also hereby made to all of the records and files in the aforesaid bankruptcy proceeding.

WHEREFORE, your intervening petitioners respectively pray that your Honors will forthwith fix a date for hearing of this petition upon due notice to the alleged bankrupt corporation, and that upon

such hearing your Honors will forthwith appoint a receiver to take charge of all and singular the assets of said alleged bankrupt corporation within the jurisdiction of this Court, to hold and conserve the same during the bankruptcy proceedings and pending the appointment and qualification of a trustee, and that the said receiver be instructed and directed to institute such proceedings in law or in equity as may be appropriate to set aside and annul the wrongful transactions of the officers of the alleged bankrupt corporation transferring the securities, assets and property of said corporation, and restoring the same to the estate of said alleged bankrupt corporation, and to institute such proceedings in law and equity as may be fit and appropriate to protect the interests of the stockholders, creditors and investors of the alleged bankrupt corporation, and to institute such appropriate proceedings, either in law or in equity, against the officers of the said alleged bankrupt corporation as may be deemed necessary, and for such other and further relief or orders as may become necessary and proper in the premises.

I. H. VAN WINKLE,
Attorney-General of Oregon,
RALPH E. MOODY,
Assistant Attorney-General,
Attorneys for Intervening
Petitioners.

[illegible]

I, Charles M. Carey, being first duly sworn, say that I am the duly appointed, qualified and acting Corporation Commissioner of the State of Oregon; that I am one of the intervening petitioners named in the foregoing petition; that I have read the same, and that the same is true, as I verily believe.

CHARLES H. CAREY,

Subscribed and sworn to before me this 2nd day
of August, 1934.

EDWARD E. SOX,

Notary Public for Oregon.

My commission expires: Sept. 29, 1933.

(NOTARIAL SEAL)

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF OREGON

IN THE MATTER OF THE WEST-
ERN BOND AND MORTGAGE COM-
PANY

) No. B-16722
) AFFIDAVIT OF CHAS.
) A. GOODWIN IN SUP-
) PORT OF THE INTER-
) VENING PETITION OF
) THE CORPORATION
) COMMISSIONER OF
) THE STATE OF ORE-
) GON FOR THE AP-
) POINTMENT OF A RE-
) CEIVER.

UNITED STATES OF AMERICA)
 STATE OF OREGON) ss.
 COUNTY OF MARION)

I, Chas. A. Goodwin, being first duly sworn upon oath say that I am the duly appointed, qualified and acting deputy corporation commissioner of the State of Oregon, and that I am an expert accountant; that at the instance, request and direction of Charles H. Carey, the Corporation Commissioner of the State of Oregon, from the 28th day of March, 1934, to and including the 5th day of May, 1934, I made an investigation and examination, so far as the same were available, of the corporate records of Western Bond and Mortgage Company, the alleged bankrupt, and of its books and accounts, and that from such examination it appears that the said alleged bankrupt corporation is insolvent, as is alleged in the intervening petition of the State of Oregon and the Corporation Commissioner of the State of Oregon, and the creditors therein named, who joined in said petition, and reference is hereby made to the said intervening petition and to all of its allegations;

That at the date and time the Lawyers Title and Trust Company was substituted for trustee in lieu and instead of the Portland Trust and Savings Bank, formerly Portland Trust Company of Oregon, under the provisions of the trust agreements mentioned and referred to in the intervening petition of the State of Oregon and of the Corporation Commissioner of the State of Oregon, there was delivered to

Lawyers Title and Trust Company by Portland Trust and Savings Bank sixty-four mortgages of a face value of \$601,401.71, and municipal bonds of the face value of \$30,500.00, and certificates of deposit of \$4,300.00, making a total of the face value of all securities of \$636,201.71, all of which mortgages, municipal bonds and certificates of deposit had been deposited with the trustee under the provisions of its trust agreements to secure the payment of its installment, single-payment and coupon bonds; that since the Lawyers Title and Trust Company received such securities, there has been withdrawn therefrom, by the alleged bankrupt corporation, many of said mortgages and other securities, and other mortgages and securities have been substituted therefor, but in some instances there has been withdrawn mortgages and other securities from said trustee by the alleged bankrupt corporation and for which withdrawals there has been no substitution; that some of such instances are as follows:

There was deposited by the alleged bankrupt corporation with the trustee, during the time that Portland Trust and Savings Bank was the trustee, a mortgage on the St. Clair Apartment House of Portland, Multnomah County, Oregon, and at the time the said mortgage was delivered to the Lawyers Title and Trust Company, which succeeded the Portland Trust and Savings Bank as trustee, there was a balance due upon said mortgage of \$44,857.50, and on February 28, 1931, the alleged bankrupt corporation withdrew

from said trustee, Lawyers Title and Trust Company, said mortgage, at which time there was due thereon the sum of \$44,512.50, and the said alleged bankrupt corporation did not then, nor has it at any time since, substituted any mortgage or other security of any kind whatsoever in lieu of or in place of the said mortgage so withdrawn by it on said 28th day of February, 1931. The said mortgage so withdrawn by said alleged bankrupt corporation was sold on April 19, 1931, to the Portland Trust and Savings Bank (the former trustee) by said alleged bankrupt corporation at a discount of \$10,187.50, in an apparently collusive transaction; that the said mortgage was equal in value, at the date of its said sale to the Portland Trust and Savings Bank, to \$44,512.50, the full amount of the balance due thereon;

That the two mortgages, in the respective amounts of \$77,500.00 and \$72,500.00, totaling \$150,000.00, on the Russell Ranch, deposited with the trustee, mentioned and referred to in the petition of intervention by the State of Oregon and the Corporation Commissioner, were probably of the value of the amount due or to become due on said mortgages; that the officers of the alleged bankrupt corporation withdrew from the trustee said two mortgages or or about February 29, 1932, which was since the date of the filing of the petition in bankruptcy against the said alleged bankrupt corporation; that the officers of the alleged bankrupt corporation, after they had withdrawn the said mortgages, cancelled and released the said mortgages,

and substituted with said trustee for said two mortgages withdrawn (a) mortgage for \$135,000.00 on nine hundred acres of diking district land in Wahkiakium County, State of Washington, on which there was due a large amount of diking district assessments and delinquent taxes, which have since accumulated to \$36,656.97, and this land has now all been ordered sold to satisfy judgments for said taxes and assessments; (b) mortgage for \$90,000.00, covering eight hundred lots in the City of Bend, Oregon; that this mortgage is far in excess of the value of the property that it covers, and that not many years prior to the execution of the last mentioned mortgage, the property so mortgage was sold for \$10,000.00 in satisfaction of a mortgage thereon, of which the balance due was \$45,000.00; that the record title of this property was acquired by Realty Securities Corporation, a corporation owned and controlled by the officers of the alleged bankrupt corporation, and it was the said Realty Securities Corporation that executed the mortgage to the alleged bankrupt corporation for the said sum of \$90,000.00, which was then deposited with the Lawyers Title and Trust Company, as trustee, as one of the mortgages substituted for the aforesaid mortgages withdrawn from the trustee upon the aforesaid Russell Ranch property; that this last mentioned mortgage is of very small value, if it has any;

That it has been the practice of the officers of the alleged bankrupt corporation, before and since the filing of the petition of bankruptcy against the said

alleged bankrupt corporation, to withdraw from the trustee mortgages and other securities of value, and that whenever any mortgages or other securities were substituted for those withdrawn, such substitutions were of far less value than those withdrawn, and that this juggling by the officers of the alleged bankrupt corporation with the securities so deposited with the trustee was done in connection with and through the means of other corporations, which were either owned or controlled by the officers of the alleged bankrupt corporation;

* * * * *

EXHIBIT N

SPECIAL MEETING OF THE BOARD OF DIRECTORS OF THE WESTERN BOND & MORTGAGE COMPANY, HELD AT THE OFFICE OF THE COMPANY IN PORTLAND, OREGON, FEBRUARY 11, 1932, AT THE HOUR OF TWO P. M.

All of the Directors being present, notice of time and place of meeting was waived.

The President of the Company called the Board's attention to considerable negotiations with the Bank of California, to which bank this Company is indebted in approximately the sum of \$118,000.00 by reason of rediscounts made to such bank. He likewise presented to the Board various letters of considerable threatening nature and disclosed that for a period of time last past great pressure was being put on this Company

by the Bank in an endeavor to have this Company liquidate such obligation. He also disclosed the fact that the Company through its officers had done everything possible to satisfactorily adjust matters with the Bank and pay this obligation and that it would be necessary to borrow from the Massachusetts Mortgage Company certain money or securities to the extent of \$35,000.00, which had already been done and which had been pledged to the Bank of California by said Corporation, and likewise that it was necessary that additional funds be secured to pay the balance due and that it would be necessary to secure funds to pay taxes on the property known as the Russell Ranch which was mortgaged to this Company; to secure funds to pay the annual rental on the lease and secure additional funds to operate the property if possible, and that various negotiations have been carried on and under the present market the said Russell Ranch was being run at a considerable loss and that same was unable to meet its interest and that the mortgage was being criticized as being in excess of the actual value of the said Russell Ranch; that a Corporation, known as the Ochoco Farms Corporation, had acquired the ranch and that it was necessary to borrow funds to the extent of approximately \$28,000.00 from said Ochoco Farms Corporation, which funds so borrowed together with the amount advanced by Massachusetts Mortgage Company, and together with what sums could be secured from the liquidation of certain sheep mortgaged to this Company and rediscounted

to the Bank of California, would pay the entire indebtedness and would leave this Company with a liability in excess of \$118,000.00; and the President therefore asked that the Company ratify the loan heretofore made from the Massachusetts Mortgage Company in the extent of \$35,000.00 and that this Company borrow from the Ochoco Farms Corporation approximately \$28,000.00 on such terms as could be obtained to the end of satisfying the claim of the Bank of California against this corporation. All of which seemed to the President to enure to the benefit of the stockholders and bondholders of this Corporation.

The Secretary, E. F. O'Flynn, presented to the Board the various facts concerning those two certain mortgages on the property owned by the Keystone Finance Company and known as the Russell Ranch, the said mortgages being in the sums respectively of \$77,500.00 and \$72,500.00, aggregating \$150,000.00, and that considerable criticism of the Company and liquidation had been instituted by reason of the supposed excessive values of said property, and further, that the Keystone Finance Company had conveyed the property to the Ochoco Farms Corporation, which latter corporation was now the owner, and which corporation was desirous of having said mortgages satisfied. He further informed the Board that the Ochoco Farms Corporation are the owners of a certain mortgage on property located in the town of Bend, Oregon, which property was owned by the Realty Securities

Corporation, an Oregon Corporation, and that said property was appraised at approximately \$200,000.00 on the present market, such appraisal being made by five of the leading realtors in the town of Bend, Oregon, and that said mortgage was in the sum of \$90,000.00. He also represented to the Board that the Ochoco Farms Corporation was the owner of a certain mortgage on property located in Wahkiakum County, Washington, which property had been appraised by responsible realtors and bankers as being worth approximately \$270,000.00, and that said property was owned by the Realty Securities Corporation and the mortgage held by the Ochoco Farms Corporation was in the sum of \$135,000.00; that the Ochoco Farms Corporation were ready and willing to convey to this Company both of said mortgages in full payment and satisfaction of the two mortgages on the Russell Ranch, which certain mortgages are in the following amounts: One in the sum of \$77,500.00 dated December 20, 1925; and in the sum of \$72,500.00, dated December 20, 1929; and also in full payment of and satisfaction of that certain mortgage in the sum of \$58,000.00 made by Lake Lucerne, Incorporated, and now held by this company, and in full satisfaction and payment of bonds aggregating the sum of \$17,500.00, known as the Kenedydale Water Company bonds, of Kenedydale, Washington.

After some discussion, the following resolution was made and seconded:

RESOLVED, that this company accept from the Ochoco Farms Corporation the mortgage on properties located in Bend, Oregon, securing a note in the sum of \$90,000.00, and which mortgage is a first lien on approximately 800 city lots in the town of Bend, Oregon, which have been appraised at approximately \$225.00 per lot; and a note and mortgage in the sum of \$135,000.00, which note and mortgage is secured by approximately 900 acres of land located in the County of Wahkiakum, Washington, and appraised at approximately \$270,000.00, in full payment and satisfaction of those two certain mortgages made and executed by the Keystone Finance Company, in the respective sums of \$77,500.00 and \$72,500.00 and which mortgages represent land located in Crook County, Oregon, and known as the Russell Ranch, and in full payment and satisfaction of that certain mortgage in the sum of \$60,000.00 made by Lake Lucerne, Incorporated, and secured by certain properties in said mortgage described, and in full payment of bonds of the face value of \$17,500.00, issued by the Kennydale Water District, of Kennydale, Washington, known as the Kennydale Water Company bonds; and be it further RESOLVED that the President and Secretary, or President and Assistant Secretary make a proper satisfaction of the mortgages in the sum of \$77,500.00 and \$72,500.00; and be it further RESOLVED that the President and Secretary, or President and Assistant Secretary make a proper satisfaction of the mortgage executed by Lake Lucerne, Incorporated, in the sum of \$58,000.00, or a satisfaction of the same as directed by representatives of the Ochoco Farms Corporation, and a delivery of bonds aggregating the sum of \$17,500.00;

AND BE IT FURTHER RESOLVED that the proper officers of this Company be directed to borrow from the Ochoco Farms Corporation the sum approximately \$27,000.00 on such terms as

they can best obtain, and be it further RESOLVED that the action of the officers heretofore borrowing from Massachusetts Mortgage Company the sum of \$35,000.00, which sum is in the form of a second mortgage on Seattle property and which has been accepted at par by the Bank of California as an obligation of this Company, be ratified and approved, and that the proper officers of this Company make and execute any note or obligation or pledge to secure the said Massachusetts Mortgage Company.

The foregoing resolutions were unanimously passed and the proper officers directed to execute the proper instruments relative to the mortgages and to deliver the bonds.

There being no further business, the meeting adjourned.

Signed W. E. Johnson

President

Attest E. F. O'Flynn

Secretary

.....AND BE IT FURTHER RESOLVED, that the President and Secretary, or President and Assistant Secretary, make the proper satisfaction of the said mortgages made and executed by the Keystone Finance Company in the respective sums of \$77,500.00 and \$72,500.00 and cause the same to be recorded;

The foregoing resolution was unanimously passed and the proper officers directed to execute the proper instruments relative to the said mortgages, et cetera.

There being no further business, the meeting adjourned.

Signed W. E. Johnson
President

ATTEST:

E. F. O'Flynn
Secretary.

